

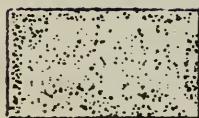
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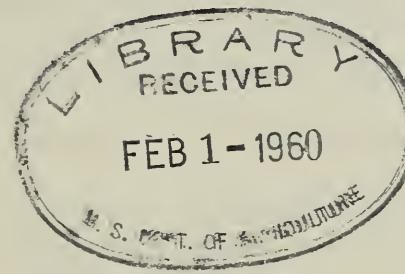


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HOW CAN FARMER COOPERATIVE SERVICE  
MEET THE CHALLENGE OF CHANGE?



Highlights  
of the  
20th Annual Workshop  
of the  
Farmer Cooperative Service

December 16-18, 1957



U. S. Department of Agriculture  
FARMER COOPERATIVE SERVICE  
Washington 25, D. C.



HIGHLIGHTS  
of the  
20th ANNUAL WORKSHOP  
of the  
FARMER COOPERATIVE SERVICE

INTRODUCTION

This is a report of the 20th Annual Workshop of the Farmer Cooperative Service, U. S. Department of Agriculture, held at Washington, D. C. on December 16, 17 and 18, 1957. The workshop's theme was "How Can Farmer Cooperative Service Meet the Challenge of Change?"

Members of the Program Committee for this workshop were:

J. Warren Mather, Farm Supply Branch, Chairman  
John H. Heckman, Membership Relations Branch  
Stanley F. Krause, Dairy Branch  
Joseph E. Rickenbacker, Transportation Branch  
Irwin W. Rust, Fruit and Vegetable Branch  
Job K. Savage, Special Crops Branch  
Stanley K. Thurston, Grain Branch  
Paul C. Wilkins, Frozen Food Locker Branch  
J. Kenneth Samuels, Marketing Division (Ex Officio)

This publication presents highlights of the workshop, rather than a verbatim report of the talks and discussions. The views presented are those of the participants and do not necessarily reflect the official views of the Farmer Cooperative Service on the many questions discussed. While prepared primarily as a work improvement tool for staff members of the Service, a limited number of copies are available to other persons having an interest in this area.

The report was prepared by the Highlights Committee from copies of talks submitted by speakers and from notes made during the workshop. Members of the Highlights Committee were:

Wendell M. McMillan, Fruit and Vegetable Branch, Chairman  
Arthur H. Pursell, Farm Services Branch  
Ira M. Stevens, Livestock and Wool Branch



## PROGRAM

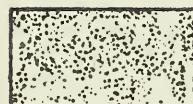


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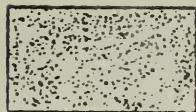
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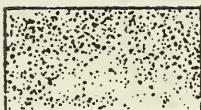
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GREETINGS  
from the Secretary of Agriculture  
EZRA TAFT BENSON

The Department of Agriculture has worked with farmers on their cooperative problems since its establishment in 1862. Work on an organized basis, however, was not undertaken until 1913, when the Office of Markets was created. The Cooperative Marketing Act of 1926 laid a broader foundation for this work.

One of my early acts as Secretary of Agriculture was to establish Farmer Cooperative Service to more effectively carry on the work called for by this Act.

Cooperatives have increased farmers' bargaining power, improved distribution methods, created new market outlets, improved quality of products and supplies, and provided more abundant low-cost credit, irrigation, insurance and electric service. Their concept of self-help, of group action, of freedom of enterprise has left a valuable and indelible mark on our history.

I am sure that both management and research will be advanced during the sessions of the Workshop which open today. I wish you every success in these efforts.

Remember always that the cooperative method is no longer on trial. It has proven itself economically, socially and spiritually sound.

God bless all who in any way are striving to strengthen self-help efforts through sound farmer cooperatives.

SESSION I

Monday Morning, December 16, 1957  
Chairman: Joseph G. Knapp

WORKSHOP OBJECTIVES

Joseph G. Knapp

Our workshop objectives this year are the same as in the past - to improve our ability to render service to farmers through their co-operative associations.

This year, however, we are focusing our attention on a number of significant challenges which basic changes in agriculture and industry are bringing to farmer cooperatives.

Our workshop committee has given us several basic problems to stretch our minds. We are presented with the broad question: What can we in Farmer Cooperative Service do to help farmer cooperatives better meet their responsibilities in solving these problems?

This is really a staff workshop this year -- with the emphasis on work -- although a workshop without incidental fun would be a dull affair. If it comes up to my expectations it will be one of the most useful workshops in our long record of useful workshops.

This is a staff enterprise. It is your program. I challenge all of you to make this 20th workshop our best to date.

COOPERATIVES AT THE CROSSROADS

Ervin L. Peterson

In the current agricultural situation cooperatives are at a crossroads. Farmers today find themselves in a period of very rapid change. In 20 years the number of farms has been cut one-fourth. With advancing technology and mechanization, today's farm requires more capital, more equipment, and more farm services of all kinds. Marketing, too, has become more complex. Today almost any kind of food is available in any part of the land at any time of the year.

The farmer is in a vulnerable position. He is increasingly dependent on off-the-farm services in production as well as in processing and marketing. Higher capitalization and higher cash operating costs carry with them higher risks. He has to increase his managerial skill and apply it to the operation of his farm business with the result that he has little time to give his personal attention to off-the-farm activities while the manner in which they are conducted substantially determines the success or failure of his own managerial efforts.

How can the farmer manage his affairs with his attention required to be almost entirely focused upon his production enterprise? How can he be represented most effectively in securing tools of production and in moving his production through marketing channels? I have come to the conclusion that either Government management in agriculture is going to be intensified or something is going to have to be developed to substitute for Government management. What type of organization is going to represent farmers in bargaining for tools of production and processing and distribution?

Either it will be the Government, or the farmer himself. Individually the farmer can't do it. Is there another force, another organization to do it for him? I think there is. I think the cooperative marketing organization, the cooperative purchasing organization, or a combination of the two, can represent the farmer and give him bargaining power for securing from off-farm sources materials and services for production and processes and services of distribution.

All of us know of many instances of individual cooperatives -- both large and small -- which have done and are doing an excellent job of representing farmers in acquiring tools of production and in handling products that come from the farm. Some examples of small ones that are very successful as bargaining agents for farmer-members are the Tillamook (Oreg.) County Creamery Association, the Willamette Cherry Growers, Inc., (Salem, Oreg.), and the Apple Growers Association (Hood River, Oreg.). Other successful organizations are Sunkist (Sunkist Growers, Inc., Los Angeles, Calif.), Darigold (Consolidated Dairy Products, Inc., Seattle, Wash.), and Washington Cooperative Farmers Association (Seattle). Other organizations have not yet achieved their full potential but are doing a good job in representing farmer-members.

Other cooperatives, however, are little more than additional competing business organizations, and some are even fighting each other. They have not learned to cooperate and to represent their farmer-members as their business agent. Cooperatives, as well as other forms of organizations, do not grow unless they render services to people.

Why do I suggest that cooperatives are at the crossroads? As I see it we will continue to have abundance in the foreseeable future. Production is currently running ahead of consumption. Government has become more and more a dominant factor in the whole agricultural economy. Either the role of Government will be extended to result in a high degree of publicly managed agriculture, or we are going to find a different device to represent farmers. I think the cooperative movement and cooperatives have an opportunity in a major way to become that device. As far as I can think the problem through, I see no other means of getting at this problem with effective control of it remaining in the hands of the farmers themselves.

It is a sound approach for farmers to use their own businesses, capably directed by professional management, to obtain the supplies and services they need to produce and to take their products through the channels of trade. A common purpose of co-ops is to give bargaining power to farmers.

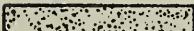
I think that cooperatives and cooperative leadership today have a challenge such as I haven't seen in my life. I hope they will measure up.

What is our job - yours and mine? Some folks have suggested that the Department should state its policy on cooperatives. I say that such a statement should not come from Government. We could do it but I say that such a decision on our part would not be especially helpful. It would not be as helpful as the same kind of statement coming from cooperative leadership, from cooperatives themselves. Cooperative leadership is challenged to determine what role cooperatives shall play in agriculture, and then to develop that role and insist that they obtain from the Government the kind of service, information and research needed to achieve this role.

I do not believe that Government should predetermine the objectives, purposes, and contributions that cooperatives can make to American agriculture. Cooperative leadership throughout the country has let too much time go by. Such an expression of purpose is long overdue. If it is forthcoming, then the cooperative movement will tell us what it needs from Government to serve its purposes to obtain bargaining power. I know we have in our own Department the capacity, energies and ability to provide creditably the services needed.

Everywhere I have gone I have had words of praise for you people of FCS. You are small in size but you are a good outfit. You have every right to be proud of the contribution, help, and service you are rendering not only to farm people but also to the whole country.

I hope that as we have contacts with cooperative managers and other cooperative people we try to stimulate their thinking. That is part of our responsibility in Government. Cooperative people have to think through the process themselves and become convinced that it is the thing to do. If we can stimulate them and we can get the cooperative movement to express itself about its objectives and purposes, then we can make our service to cooperatives and the cooperative movement more effective. Cooperatives and cooperation can succeed only as people understand and believe in the cooperative way. A major part of the task of cooperatives and cooperative leadership is to demonstrate its ability to effectively perform as the business representatives of the producer-members it serves.

 COMMENTS

Paul S. Armstrong - Mentioning that he was much interested in what Secretary Peterson had to say about bargaining power, Mr. Armstrong commented that cooperatives, as a whole are notoriously weak on bargaining power. Cooperatives cannot be made to grow quickly and must be built from the bottom up. Many are held together with ropes of sand - that is, they have no contract or firm commitment for delivery of commodities. Thus, it is difficult for management to bargain effectively, to bargain from strength.

However, Mr. Armstrong said that he has high hopes that co-ops will grow, though not at a spectacular rate. He thinks they have an influence out of proportion to their size. They have been pacesetters in removing bad practices in industry. Mr. Armstrong hopes that FCS, as trusted advisors to cooperatives, will impress upon cooperatives the need for good management, and for putting into management's hands tools enabling them to bargain effectively.

Raymond W. Miller - Based on his many contacts with cooperatives in underdeveloped countries, Dr. Miller observed that a major cause of their problems is that they rely too heavily on government aid. To get off the road to peonage, cooperatives must do the job themselves.

Dr. Miller also pointed out two neglected parts of American foreign policy: We need to let people overseas know (1) that we have small businesses, and (2) that we have cooperatives that are free and independent.

N. L. Allen - After expressing greetings from the National Council of Farmer Cooperatives, Mr. Allen emphasized a great test facing American agriculture. It is the question of whether agriculture will be able to maintain its present standard of living, or whether it must go back to something approaching peasantry. The trend towards mergers and integration in the food industry poses serious problems for farmers. Mr. Allen felt that in the future there will be greater demands on FCS for research and service. While some people feel that more work should be done by State agencies, this assistance is hindered by a lack of trained personnel. He had high praise for the FCS study of American National Foods.

R. B. Tootell - Governor Tootell mentioned the viewpoint of some economists that cooperatives may have reached their peak of maximum contribution to the farm economy. He wondered if this idea reflects the attitude of many people that, in some way or other, the Government will take care of the farmer. To the question, what our economy would be like without farmer cooperatives, he answered that it is like the question raised in a campaign document when Alfred M. Landon was running for president, "What kind of President would Landon make?" The answer given was "We will never know."

CHANGES IN AGRICULTURE

Kenneth L. Bachman

My look at changes ahead in agriculture over the next decade or so will concentrate on changes in cost, production, and the structure of farming. This makes my job easier for two reasons. First, these are the areas with which I have familiarity. Second, basic trends now underway foreshadow many of the changes ahead in these items.

This is true because of (1) the major revolution in the technological and economic environment of farmers, and (2) the characteristics of agriculture that make for a relatively slow but continuous process of change. This will be more apparent as we look at some of the past trends.

The volume of farm output has been increasing since 1870. The number of farm workers has steadily declined since World War I. The shift from animal to tractor power began about 1920.

But really rapid changes in farm output, productivity, and use of resources have occurred since about 1940. Man-hour requirements per unit of output have been cut in half in this 20-year period.

Two of the basic stimulants for changes in resource use were the developments in technology that provided opportunities to cut costs and the changes in relationships among cost rates. For example, use of fertilizer is now  $3\frac{1}{2}$  times as great as in 1940. Farmers have greatly increased their knowledge about the use of fertilizer. At the same time, fertilizer has become cheaper compared to land and other inputs.

Current trends indicate that these changes in resource use are continuing. One of the important reasons why these changes continue in spite of lower prices is the fact that on a going farm the costs of additional production continue much lower than the average costs. Many farmers find they can more fully utilize their existing resources and get additional production at a relatively low cost by adding more acres, more cows, or more fertilizer.

Part of this process has been the growth in size of commercial farms. Our agriculture has been characterized by two concurrent developments an increase in the number of part-time and rural residence farms and an increase in the size of commercial farms. Farms have grown not only in acres but in number of cows and yields per acre and per animal. Investment per worker also has been increasing rapidly during this period.

Now, what about the future?

The animal increases required in farm output between 1951-53 and 1975 may be half again as large as occurred during the 40 years from 1910-12 to 1951-53. They would be substantially greater than the increase that has occurred since the end of World War II.

Our available research would lead us to believe that these increases can be rather easily accomplished and largely from the continued adoption of current technology. This differs from the view of R. G. Bressler, as you may have noted from a recent issue of the Journal of Farm Economics.

We see further increases in the size of commercial farms. Machines that reduce labor requirements are being developed every year. Even more important, the present size distribution indicates substantial room for further increases in farm sizes.

If farms are to be larger and output higher, more nonfarm resources will be needed in agricultural production. This will mean more equipment, more fertilizer and insecticides, and in total, more machinery.

Specialization in poultry farming, dairy farming, and fruit and vegetable farming has increased significantly. Cotton and corn production has become concentrated on fewer farms.

The review of the future changes in agricultural resources and production raises broader questions regarding their implications on the structure of commercial agriculture. What is the meaning of these changes? Do they give us any clue as to the chances of survival of the family farm?

Perhaps we need first to summarize some of the basic reasons for the trends during the last quarter-century. Of first importance, undoubtedly, has been the availability of the technological innovations that increased output per worker. Equally basic has been the rising standard of living in our economy generally and the availability of off-farm employment opportunities. These two things have provided an incentive for mechanization and for higher incomes in agriculture, and have afforded alternatives for those who prefer other occupations.

Looking ahead, we have said there will be an increase in size of farms. The chances for the survival of small full-time family farms in a high-wage, full-employment economy do not appear to be bright. On the other hand, most of us feel large-scale, wage-operated farms are likely to continue to form a minor part of our agriculture. So far, the increases in size of farms have been made with a decrease in the use of hired labor. Family farms that are large enough to utilize modern machinery are expected to continue to hold their own on the basis of the present situation.

But several factors that may affect the trends in kinds and sizes of farms may become important in the years ahead. The fact that agriculture is each year becoming more closely tied to the general economy cannot be overemphasized. Shifts in type of farms will be closely related to the relatively large increases in the demands for livestock and also fruit and vegetable products. This in turn may affect the trends toward specialization and vertical integration.

Additional aspects revolve around the types of technological development that are forthcoming. Some people believe that in the coming quarter-century biological innovations may be more important than mechanical innovations. Getting into farming will be more difficult for the young man of tomorrow. Problems of financing and ownership take increased significance and capital investments have increased. In the last quarter-century, the average investment per worker in agriculture more than trebled.

So far, we have been talking about commercial farms - those primarily dependent upon agriculture. One of the fundamental changes going on now is the increasing number of part-time farms and rural residences. This has a tremendous potential impact on rural community living and on the things rural people will buy. What farmers who take off-farm jobs do with their extra land may also affect opportunities for farm enlargement.

Looking backward, we see that from time to time our society has taken steps that have affected the organization of agriculture. Most of the forces that affect farm size are man-made forces that operate through man-made institutions. They are, therefore, subject to human choices and can be modified by human effort.

For example, the continuation of the trend toward vertical integration may exert a pull in the direction of larger farms in order to retain producer bargaining power and management responsibilities. Or with other arrangements, greater integration of production with the financing, supply, or marketing functions could bring some of the advantages of technical efficiency to small operations.

In the broad perspective of our agriculture as a whole, some forces pull toward large-scale farming. Other forces continue to favor sizes of farms that can be operated largely with family labor. Whether trends will be in this direction may depend in part on the changes in our institutions, including cooperative services, financing, education, and marketing.

#### IMPLICATIONS FOR COOPERATIVES

Homer G. Smith

The preceding talk pictured the continuing trend toward larger sized farms, and the growing need of these farms for more feed, more fertilizer, more insecticide, more machinery. What are the implications of these trends for cooperatives?

Let us look first at purchasing cooperatives. There will be more bulk feed handling. Cooperatives can't afford to miss the farmers who need feed by the truckload, or even by the carload. Cooperatives have made big advances in providing fertilizer. For example, there is, in the South, a large plant on a continuous operation basis. Then there is a "super-regional" co-op developing phosphate deposits in Idaho. There are also illustrations of cooperatives providing truck and carload quantities of feed to meet the needs of large farms.

Now let us look at marketing cooperatives. Bargaining co-ops often get into processing and this takes capital. We will hear of the need for improved bargaining and processing cooperatives if farmers are not to go elsewhere.

Grain co-ops are trying to merchandise high-quality products in large quantities to millers. We also see farmers bypassing local elevators. With dairy co-ops we see the need for more of them to work together. Some small cotton gins that were efficient when set up should have the statesmanship now to merge. In fruit and vegetable cooperatives we have advance payments versus cash purchases method of operation. It takes a lot of money for processing so co-ops are often vulnerable and can go broke easily if they aren't efficient and keep up with the time.

Contract farming and vertical integration have implications for cooperatives that are great. In this period of change there is a great need for capital investment in facilities if farmers are to keep up in a changing agriculture.

We must never let anyone divorce the farmer from his cooperative in the public's thinking. Farmers must finance their co-ops, use them, keep them efficient and soundly financed. It seems that we face a period of tremendous challenge for cooperatives to keep the family farm.

DISCUSSION

Responding to a question on what cooperatives that use advance payments should do when competitors use cash purchase, Mr. Smith said not much can be done where cash is the custom, but that conditions can be improved where an educational program is carried out and farmers have the facts. Possibilities of some type of short-term loans were pointed out. Mr. Smith also indicated that the advance method predominated with fruit and vegetable co-ops, and that the trend is toward the advance in cotton.

Questioned on the availability of capital to meet the expected surge in demand for funds, Mr. Smith indicated that if "the deal" is sound, funds will be available.

He also indicated that the trend toward feed financing for poultry, and now hogs and cattle, with facilities and marketing decided by contract, has been recognized and is being discussed by Farm Credit.

SESSION II

Monday Afternoon, December 16, 1957  
Chairman: Martin A. Abrahamsen

HOW CAN WE HELP COOPERATIVES IMPROVE  
THEIR BARGAINING POSITION?

Panel members: John J. Scanlan, Joseph M. Cowden,  
Irwin W. Rust, Wendell M. McMillan, J. Warren Mather,  
and Helim H. Hulbert

INTRODUCTORY STATEMENT

L. B. Mann

Farmers are basically in a weak bargaining position because of their large number in relation to number of buyers of their products and suppliers of production needs. This is because they produce raw products for processing and distribution, and because the quantity and quality of what they produce are not easily controllable. They are especially vulnerable when farm production is large in relation to market needs.

While there is strong competition in sale of food, it is largely pointed to benefit consumers. As large-scale retailers continue to integrate back to the production area by acquiring wholesale facilities, processing plants, and packinghouses, it will become much harder for farmers to maintain their cooperatives and in turn to develop integrated marketing organizations of their own.

To meet this condition, farmers must strengthen their cooperatives and in some instances organize and develop new ones in areas where few now exist. Also an increase in active membership and greater use of co-ops by farmers is needed. This may be done by:

Consolidation of many local co-ops into larger organizations to strengthen bargaining power and to improve efficiency is essential.  
Coordination between existing co-ops is needed.

Vertical integration is needed in some commodities and in some areas if cooperative operations are to go beyond the marketing of raw products and into processing and distribution.

Diversification of operations holds possibilities for strengthening bargaining position.

Improvement in internal organization of cooperatives also is called for if they are to succeed in this more complicated and intense type of activity.

Government Marketing Agreements and Order Programs may offer the most effective ways of strengthening cooperatives' bargaining position in some commodities and under certain conditions.

This afternoon we plan to explore the major areas which appear to offer the greatest opportunities for improving cooperatives' bargaining position. This will be done by directing leading questions to members of the panel in order to spark ideas and to obtain answers.

## **CONSOLIDATION AND COORDINATION**

**Q - Why is this matter of consolidation of cooperatives so important today?**

**A - It is important because (1) the competitors, as well as the customers of cooperatives are becoming larger and more efficient through mergers and consolidation, and (2) consolidation is an integrating device which can be used by cooperatives to their own advantage.**

**Q - What advantages can you see in consolidation of cooperatives?**

**A - Through consolidation, cooperatives stop competing with each other; costs may be reduced; it may be easier to obtain capital and attract better management; and a consolidated firm with a large volume may be able to better serve its customers, especially the large-scale buyers who want to buy on specification.**

**Q - What type of research should we do to help co-ops on consolidation problems?**

**A - Research could be done on such general problems as these: How far should cooperatives go with consolidation in various types of market situations? Would consolidation or some other form of integration work best in these market situations? What techniques work best in carrying through a consolidation? To get answers to these general problems we ought to assemble data on consolidations by other firms that are handling the same products as cooperatives, as well as on consolidations of cooperatives; and make case studies to find out how mergers were accomplished and why some attempted mergers failed.**

**Q - What type of work can FCS do to make farmers, boards of directors, and managers aware of the need for consolidation?**

**A - We can help broaden the thinking of directors and managers. Help them see the changes taking place in agriculture and business and the implications of such changes on cooperatives. Get them started on planning ahead so that their co-op can meet the changes ahead.**

**Q - What suggestions do you have for doing preliminary educational work?**

**A - We need to (1) become better informed and do some thinking ahead; (2) talk with managers, department heads and directors and ask them stimulating questions - questions as to what current and long-term planning they are doing; (3) write articles on the need for consolidations in each commodity field; (4) find out what co-ops**

and others are doing in this field and (5) get reprints of these articles to all co-ops because some of the larger ones will have to be willing to merge with or buy out the smaller weak ones, and to all marketing specialists in extension services and State departments of agriculture.

Q - Shouldn't these articles go to directors as well as managers?

A - Yes, it is necessary that directors have such information because managers often may be opposed to mergers. This poses a real problem, as there are probably 70,000 or more directors.

Q - Here is one way that the Minnesota Association of Cooperatives thought FCS could help on this problem: It recently suggested a county-by-county study of the Nation's co-ops looking toward widespread mergers. This was proposed to a House of Representatives agricultural sub-committee. FCS was suggested as the agency to make such a study. Do you think such a study would be worthwhile? And if so, how would we go about it?

A - Yes, it might be handled in a way similar to the 1936 co-op survey which was made by Banks for Cooperatives in cooperation with FCS and State colleges. However, a study of mergers would probably be much more difficult and expensive to make than the 1936 survey.

Q - What do you see as the greatest impediments to consolidation, merger, federation, or other type of coordinated or unified effort among cooperatives?

A - They are local pride, personalities of managers and directors, local business interests, lack of information on benefits to producers, and unwillingness to change.

Q - What can we do to overcome or bring about changes in these impediments?

A - We can present economic facts and meet with committees of each group and try to work out methods of overcoming objections to merger. We can arrange for representatives of each group to visit cooperatives which have merged successfully.

Q - In conducting service work in connection with consolidations or mergers, what techniques have been found to be helpful?

A - 1. Get requests for a study from the board of directors of all interested co-ops.  
2. In the case of regional co-ops, have committees with representatives from each to assemble information on certain problems.  
3. Get help from managers and department heads in assembling information, but don't have them attend meetings of committees or boards of directors where merger is being considered.  
4. Keep all discussions as to what will be done about personnel out of the meeting or reports. Don't try to agree on a general manager for the merged co-op before merger takes place.

5. Arrange for a meeting with the associations involved to present your findings.
6. Develop plans for definite follow-up procedures. Have State extension marketing specialists in on study and meetings so they can follow up.
7. Find out why one or more of the co-ops don't want to merge so possibilities of a compromise can be explored.
8. Suggest that the stronger association pay more than market value for facilities of the weaker one (known as goodwill in industry) rather than try to squeeze the last drop out of the deal.
9. If prospects for immediate merger are uncertain, suggest that the two co-ops conduct their operations on a merged basis for a year without legally merging facilities and equities.

Q - By coordination we mean cooperation between separate cooperatives in such activities as joint trucking, joint sales programs, regional or national advertising or merchandising, federations of local or regional co-ops engaged in marketing or purchasing, and joint manufacture of feeds and fertilizers. What type of research can we carry on that will help co-ops improve their bargaining position through coordinating some of their activities?

A - Since coordination is a broad term and can be carried out in various ways and through various devices, it seems research of a basic type might be needed to determine the nature of coordination, the extent of its use, and its advantages and problems. Assuming coordination is the best integrating device, this research could be guided toward finding answers to two general problems facing cooperatives: (1) What form of coordination would be best for their particular market situation? and (2) How do you establish and carry out successfully this form of coordination?

Q - Can you give some examples of what FCS has done in bringing about coordination by marketing co-ops?

A - The coordinated marketing project and American National Foods study in the Fruit and Vegetable Branch; the work on coordinated trucking in Minnesota by the Transportation Branch; and the work of the Livestock and Wool Branch on a regional sales office to coordinate the sales of local livestock shipping points.

Q - What has FCS done in bringing about coordination among purchasing co-ops?

A - (1) During the early years of the regional wholesale supply co-ops in Tennessee and Arkansas, when they had only a few local member co-ops, studies were made of potentials in the area, ways in which the regionals could be strengthened, and ways in which they should develop; and (2) A study was made in 1950 of the extent of coordination that existed among petroleum co-ops in this country and possibilities for further coordination. Opportunities for a national cooperative petroleum association were explored in some detail.

Q - What can we do in this area in the future?

A - In addition to carrying on research, service and educational activities along the lines we discussed under consolidation, we could have the newly formed committee on integration studies assemble and make available, as needed, information such as published studies, articles, case studies, and so on, dealing with various aspects of consolidation, coordination and integration in general. This library of reference materials on integration would be of considerable value to staff members in their work with specific cooperatives.

#### **VERTICAL INTEGRATION**

Vertical integration is defined as the handling under the same management of one or more products through more than one stage of production, processing and marketing.

Q - Why is the term "vertical integration" controversial among poultry producers?

A - There is considerable confusion in some circles on the meaning of the term -- confusion to the extent that the term has an evil or unsavory connotation among some. For instance, in the poultry field vertical integration is often considered as synonymous with the "package plans" or "deals" in financing, growing, processing, and marketing broilers, and particularly in the programs where the grower does not own the birds but raises them on the basis of a specific labor income per pound of broiler raised or per week of age when marketed.

Q - What should our attitude be toward vertical integration?

A - It is seldom safe to generalize but in most instances vertical integration should be encouraged by cooperatives. Some types of vertical integration have been going on ever since cooperatives were organized. The trend is in this direction; we should seldom oppose a trend. If farmers are to control their farm operations through integrated programs, they will have to do it through cooperatives.

Q - Just how will a greater degree of vertical integration in a marketing cooperative improve its bargaining position? First, what are the benefits in integrating towards the farm with production services?

A - This type of integration can: (1) Influence, if not control, production of the most desirable variety, breed, or strain of product; (2) influence the uniformity and quality of product; (3) influence the seasonality of production for orderly marketing; (4) influence, if not control, the volume of product to be marketed by it; (5) reduce costs of handling and marketing; (6) be the answer in bargaining with the producer for his volume, to the direct procurement programs of the large food chains; and (7) put the co-op in a favorable cost position to serve the farmers by tying together the farm procurement of products and the distribution of farm supplies.

Q - What advantages can we point out to farmers in integrating towards the consumer with processing and marketing services?

A - Such integration can: (1) Put the product in the most acceptable form and package; (2) obtain as much as possible of the marketing margins for the producers; (3) obtain consumer preference by brand packaging; (4) obtain the benefits of product differentiation by quality packs; (5) Often have a voice in its final pricing by carrying the finished product into the market channels; (6) synchronize the processing and sales of products with the production of members; and (7) give assurance to the buyers that the product will be available in the desired form at the desired time, and place.

Q - In what way has vertical integration helped purchasing cooperatives improve their bargaining position?

A - By (1) giving them control over the quality of the supplies they manufacture; (2) enabling them to receive the savings from various stages of integration such as manufacturing, production, transportation; (3) spreading risks and opportunities for savings over several functions or operations; (4) providing them with a "yardstick" plant or operation with which to judge prices and services received from suppliers, and (5) assuring them of a dependable source of supplies.

Q - Just because vertical integration has been successful in one commodity or in one type of cooperative business organization, does this mean it will succeed in others?

A - No. Many times we can help farmers avoid headaches and costly mistakes by pointing out instances where operating margins are too narrow for successful operations.

Q - Now, just how can we in FCS go about helping co-ops obtain the bargaining benefits of vertical integration?

A - In this instance, our first approach probably should be educational. We need to break down several barriers before work in this field will be most productive. We need to dispel these ideas. (1) That vertical integration as such in cooperatives is objectionable; (2) that credit extension or production financing by cooperatives is essentially unsound; (3) that all operations (departments or services) of cooperatives must pay their own way; and (4) that requiring members to live by the rules of their own cooperative is unduly taking away their freedom.

We need to work with individual associations on a service basis to help them determine the direction, degree, or type of vertical integration which would be most helpful to the association and its members in each specific instance.

Q - How else can we help through research?

A - Conduct case studies of successful integrating operations; study how vertical integration has progressed in different branches of the food and fiber industry; make results of such studies available to members of the FCS staff as well as publish findings to cooperatives; hold special conferences or meetings from time to time at which results of such findings are presented to entire staff of FCS.

#### **DIVERSIFICATION**

Diversification is still another type of operation that can strengthen a cooperative's bargaining position. By diversification we mean carrying on several services or activities which are not closely related to each other by one overhead organization -- in other words a multipurpose type cooperative.

Q - In what ways can diversification improve a cooperative's bargaining position?

A - Instead of maintaining a number of small weak co-ops in a community, it might be better to have one strong one with several diversified departments. Other advantages are the spreading of risks and overhead by providing better management for seasonal operations and by using labor more efficiently throughout the year.

Q - Should this type of multipurpose cooperative be encouraged?

A - Yes, in some areas and under certain circumstances. Particularly in areas where agriculture is becoming diversified and new marketing machinery needs to be developed. However, cooperatives must also recognize the problems of diversification.

Q - What can FCS do to help cooperatives in this type of operation?

A - Make case studies of outstanding cooperatives which have diversified their operations; publish results for use of cooperatives and carry on other activities similar to those mentioned in earlier sections of this panel.

#### **INTERNAL IMPROVEMENT OF COOPERATIVES**

If the cooperatives move in the direction of consolidation, coordination, diversification or vertical integration in order to improve their bargaining position, many of them will need to improve their internal organization and management methods. Likewise, directors of these more complicated business organizations will need to be better informed and capable of arriving at important policy decisions.

Q - How can we help cooperatives train and develop better management?

A - (1) Promote and encourage management training institutes; (2) help co-ops get assistance in this field from outside agencies such as the Small Business Administration of the Federal Government, the Schools of Business Administration in various colleges and universities, the Distributive Education Branch, Office of Education, U. S. Dept. of Health, Education, and Welfare; and Banks for Cooperatives; (3) encourage land-grant colleges to put in courses on management training and encourage co-ops to make available funds for teaching such courses; and (4) urge cooperatives to develop and use incentive programs for management and top flight employees.

Q - How can we help cooperative directors do a better job?

A - By preparing a short, easily understood guide for directors' use which would list the major items a manager should present in monthly, quarterly and annual statements. It would also point out the need for and the use of goals and budgets.

Q - What else can we do to help improve the internal operations of cooperatives?

A - (1) Encourage the use of uniform accounting systems; (2) help cooperatives examine the need for and sources of capital required by integrated or diversified activities; (3) investigate more thoroughly, and encourage cooperatives to look into improved office procedures and machine bookkeeping; and (4) impress upon cooperatives the necessity for securing and retaining stronger managers and better qualified directors. Successful cooperatives require management with ability and vision, for "Where there is no vision, farmer cooperatives perish."

#### MARKETING AGREEMENT AND ORDER PROGRAMS

The use of marketing agreements and orders is another way by which cooperatives marketing dairy products and certain fruits and vegetables can improve their bargaining position. In order to become informed as to what can be done under these arrangements we are asking a number of questions.

Q - What is the origin of marketing agreement and order programs?

A - As early as 1910 dairy cooperatives were attempting to achieve more orderly marketing through establishing class pricing systems in certain major milk sheds. In the early 1920's fruit cooperatives on the Pacific Coast had developed voluntary marketing agreements. Techniques developed by cooperatives became the basis for Federal legislation authorizing marketing agreements and orders.

Q - Under what conditions are marketing agreement and order programs most effective for fruits and vegetables?

A - They are most effective where there is: (1) A relatively limited production area; (2) similar farmers' interests; (3) more easily maintained personal contact between farmers and administrative committees; and (4) strong cooperative support.

Q - What are some problems associated with marketing agreement and order programs?

A - (1) Success brings more surpluses; (2) benefits are often hidden and difficult to quantify; (3) carriers and receivers will often and logically, oppose limitations which are in the interest of the producer; (4) programs are often handicapped because they are not begun until after a crisis has affected an area; and (5) there is temptation to discontinue a program after a crisis has passed.

Q - Could marketing agreement and order programs be used to replace present price support programs?

A - Experience has shown that effective administration of marketing agreement and order programs is relatively difficult for commodities which must be processed prior to consumption. This would also be true for storable commodities such as cotton. For crops such as potatoes with production over widely scattered areas, there would need to be some overall control in order for a program to be completely effective.

Q - What is the relative importance of marketing agreement and order programs in the marketing of agricultural products in the United States?

A - Their relative importance is as follows: (1) Dairy products - 68 orders covering 36 percent of all milk sold by farmers to plants; (2) fruits and vegetables - 35 orders covering 27½ percent of total farm value of fruits and vegetables; and (3) other - one order covering entire production and sale of anti-hog-cholera serum and virus with 35½ million pigs treated in 1956.

Q - What is a Federal milk marketing order?

A - It is an arrangement whereby the marketing plan and practices of cooperative groups of milk producers receive public sanction. It underwrites and applies such plans on a marketwide basis. It is basically a pricing device. It regulates handlers, not producers. It establishes minimum prices handlers must pay producers for milk consumed within a specified marketing area.

Q - What is the effect of a Federal milk order on cooperatives functioning in order markets?

A - The cooperative is not replaced by the order. Its major function is changed, however. Representation of producers at hearings replaces direct bargaining with handlers as the primary cooperative function.

Q - Do cooperatives no longer bargain with handlers in Federal order markets?

A - Premiums over order prices are fairly common. Many cooperatives by direct bargaining with handlers are now receiving milk prices higher than minimums established by orders in their markets.

Q - Why do cooperatives not terminate orders in such cases?

A - In the first place we should point out that, if it wished, the cooperative could terminate the order by block voting its membership. The process of terminating is simple and is the perogative of the producers, but terminations are few. Why? The cooperatives' bargaining power is largely based on enforcement of a class pricing plan throughout the market. This necessary enforcement is provided by the order administrator's office.

Q - How can FCS help dairy cooperatives more effectively use Federal orders to increase their bargaining power?

A - (1) We can inform cooperative groups, as the occasion arises, how the Federal order program operates; and (2) we can assist cooperatives to develop data required to justify an order or to bring about desirable changes in existing orders. However, we probably will not devote much time to either of these jobs since such service is available from the National Milk Producers Federation, Washington, D. C., many of the land-grant colleges and from Agricultural Marketing Service, U. S. Department of Agriculture. Our greatest contribution is the research work which we do in the field of milk pricing and associated problems. A pricing plan is the heart of a Federal order. Cooperatives need all the information they can get on milk pricing problems to use in developing orders which will attain desired objectives.

SESSION III

Tuesday Morning, December 17, 1957

Chairman: Kelsey B. Gardner

HOW CAN WE HELP COOPERATIVES INCREASE EFFICIENCY AND LOWER COSTS?

COST STUDIES AS A MANAGEMENT IMPROVEMENT TOOL FOR EXISTING FACILITIES

Harry E. Ratcliffe

Before we discuss cost studies as a management improvement tool, we wish to develop some background material on need of cost studies and what costs should be obtained.

Cost studies need to be made because (1) Many cooperative managers know only in a general way their operational costs, and (2) even though a cooperative has made an analysis of its own operational costs, it has no basis of comparison until an accurate comparative cost study has been made of other cooperatives by a disinterested agency.

Care needs to be given to kinds or range of cost studies to be made. A study revealing only a unit cost of total operation will be of little comparative value and usefulness among cooperatives unless all cooperatives included in the study perform the same or nearly the same services. Even then, such a cost figure would be greatly limited in its usefulness as a management improvement tool unless the cost of performing the various steps or operations of marketing a product is determined. To make cost studies a still more useful management tool, they may be divided into direct and indirect costs. Such breakdowns or division of costs will reduce them to digestible portions.

Cost studies should not be limited to dollar-and-cents costs, because they soon become out of date. Input-output, or labor efficiency, data also should be included.

Cost and labor efficiency studies are only the starting point as a management improvement tool. A further step needs to be taken -- analysis of factors affecting variation of costs among cooperatives -- and this should be done for each by operation, since a cooperative may not be uniformly efficient or inefficient in all departments. Such an analysis must go beyond just the factors directly affecting costs.

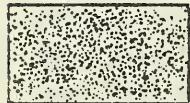
Accurate and comprehensive cost studies can be a real management improvement tool for existing facilities in the hands of alert cooperative managers and boards of directors. Cooperatives that wish to make use of cost studies and have not been included in a cost study designed to establish standards will have to determine their own costs if their accounting systems are complete enough to permit them to do so.

In using cost studies, certain factors can be checked in an attempt to make corrections where direct labor costs are out of line. For example, when the product handled is procured at the farm, collecting routes may be too long and require excessive hours of overtime, with resulting high unit labor costs. High labor costs within the plant may be caused by poorly balanced labor crews and work assignments, or the volume of product handled may have increased beyond capacity of employees with existing facilities. Quality of product may be inferior, resulting in lowered output, or flow of product through the plant may be faulty. Other factors that may contribute to high labor costs include lack of employee training; an untidy plant; and poor manager-employee relations.

When cost of materials used in packing a product is comparatively high, management will be confronted with the problem of whether to reduce materials cost by re-using packages where feasible and using packages of lighter construction and different material, -- thus running the risk of greater shipping damage and poorer buyer acceptance -- or continue to use the higher cost materials.

If indirect labor costs are relatively high, a review of factors involved will need to be made. Office procedures and producer payment and accounting methods may need streamlining. Perhaps labor-saving office equipment can be installed. Salary of manager and assistant may be out of line with the volume of product handled and services rendered.

A thorough review of the costs of a cooperative may even lead to the conclusion that a consolidation with other cooperatives may be the answer to obtaining lower costs.



#### COST STUDIES AS A TOOL FOR PLANNING NEW AND MODERNIZING OLD FACILITIES

Stanley K. Thurston

Practically all our cost studies have been historical in nature. Cost data are commonly grouped by size to obtain average unit costs. These are supplemented with a general description of the facilities and characteristics of the average association in each group plus some desirable practices and methods that will improve efficiency. Insomuch as these studies describe the facilities, practices, methods and associated costs, they help in planning facility expansion and modernization.

Historical cost studies are helpful in planning new facilities and modernization only to the extent that they reflect the future. They can be effectively used as a basing point for projecting cost volume relationships and facility utilization under various situations in the present and the future.

The technique of modeling can be used to show budgeted cost relationships for various sizes and types of facilities operating under various specified conditions. Consideration should be given to expressing inputs in terms of physical units so that they can be used by a cooperative to apply current local cost rates to obtain local cost relationships.

Methods development research could be done by FCS to determine the type and design of facilities that would perform more efficiently.

A cost study that deals only with inputs to the exclusion of outputs is often inadequate. Adding new facilities often changes not only inputs but outputs, so that increased efficiency can be accurately measured only in terms of input-output relationships.

If we are to help cooperatives in integration and consolidation, we need to make cost studies that will help them in planning facilities for new types of operations.

In all of our cost reports we should attempt to show how to apply the findings of the study to a cooperative's own situation.

### COST STUDIES AS A DEVICE FOR MEASURING MARGINS

John D. Campbell

Cost studies provide a measure or gauge of net margins by providing total cost data. Gross margins less total cost equals net margins. The existence of high net margins in a certain area might be one favorable factor in organizing a cooperative there.

Cost data provide bases for comparing costs of different cooperatives and thereby indicate points where costs may be lowered and efficiency increased.

If cost studies and net margins are going to be devoted to these important uses, it is important that they be correct and point in the right direction. Some costs are definite and recorded and give research workers little trouble. Labor and power are often of this kind. But some costs, such as depreciation, involve uncertainties. The weight to give obsolescence as compared to wear and tear sometimes involves forecasting and uncertainties. Other costs that sometime give trouble to research workers are interest and allocation of joint costs.

Problems are frequently encountered in getting costs of different cooperatives to common bases so that comparisons and analyses are valid. Uniform accounting practices or uniform charts of accounts have been recommended for getting costs to a comparable base. It is difficult to get such recommendations accepted and followed. Research workers must frequently convert costs to a common basis for valid comparisons.

Cost studies frequently serve specific purposes but are not a cure-all for problems of cooperatives. Valid studies and correct analyses that point to the proper direction are goals for more cost studies.

PUTTING COST STUDIES TO USE

Paul C. Wilkins

Putting cost studies to use is a problem facing all of us engaged in cost research. We engage in cost work to help cooperatives become more efficient in their operations and determine areas they should enter.

Cost studies are used as tools in our education and service work. They frequently provide the base upon which other research work is undertaken. Published studies provide general guidance to cooperative management on problems of costs. They are used by colleges and the Extension Service in their educational programs. Management institutes and management development programs are a growing field of education offering possibilities for expanded use of our cost studies.

In much of our service work we use results of research on costs in appraising operations, locating inefficiencies, and making recommendations for improved operations. Knowledge of costs is necessary when helping cooperatives develop improved operating programs, operating budgets, and similar management functions.

Annual comparative analyses of operating statements for groups of similar cooperatives -- supplemented with special studies of important measurable factors such as labor inputs, power utilization, and facility utilization -- are a useful type of cost work. They provide cooperatives with current information on operations comparable to their own. They are then in a position to discover inefficiencies and take corrective action.

These studies provide us with current cost information against which we can compare operations of other cooperatives under study. They also give us information on trends and production standards that is useful in appraising operations.

Cost studies are frequently used to determine unit costs as a basis for discovering operating inefficiencies. Generally these studies are tools to help cooperatives reduce unit costs. Cost studies are also needed to help cooperatives find ways to lower their cost curve. Perhaps we need the cooperation of engineers, production specialists, and others in tackling these problems.

The last area I will discuss is using cost studies to aid cooperatives operating in an economy characterized by mergers, integration, and diversification. We should intensify our efforts to measure the effect that integration, merger, or diversification have had on costs in cooperatives that already have attempted to improve efficiency in this manner. Under today's competitive conditions, cooperatives need more cost information of the type that will provide them with a tool for improving current operations and also for planning their future.

CONCLUDING STATEMENT

Homer J. Preston

For purposes of this discussion on cost studies, we have taken the view that cooperatives are basically organized to attain an economic objective. Since cooperatives by and large operate on net pool basis -- that is, remit to the growers net proceeds from gross sales after subtracting operating costs -- cooperatives have a very real obligation to attain this economic objective in the most effective way possible. Thus in this context, cooperatives must be efficient or else they are performing a disservice for growers. In brief, efficient operation in providing those services needed by growers is the number one problem of many cooperatives.

The framework in which the panel has discussed cost studies has been as follows: Harry Ratcliffe discussed cost studies as a management tool for existing facilities. Stanley Thurston indicated the means whereby cost studies could be used in planning new and modernizing old facilities. John Campbell discussed cost studies as a device for measuring margins. Paul Wilkins discussed the ways to use cost studies.

The type of economy in which we are now operating is one characterized by bigness of firms. What does this mean to us? Cost studies that we have completed or that are now underway have been exceptionally helpful in the past and will have the same role in the future. I want to toss out questions to see if we have really explored cost studies and the opportunity they present to FCS. For example, question 1 is raised by Harry Ratcliffe. Should we give special emphasis to the shape of the individual plant cost curve? Does the type of economy we are now in suggest a different type of cost study? Do we need to do more than simply locate a plant on its cost curve and suggest a means for moving it to a lower level? Is there not a need for changing that curve?

Stanley Thurston posed the question: Is it not going to be exceedingly important to plan facilities in relation to the anticipated volume? And does John Campbell's talk suggest that we need a realistic study of costs in relation to margins to point out the new horizons of cooperatives as a marketing tool for serving growers?

And finally, we come to Paul Wilkins. Should we be giving attention to technology that will shift the individual plant curve and thus the entire industry curve? Are we in a position to cope with the small cooperatives whose cost curve is at the low-volume, high-cost end of the scale when its competitors are not only at the low-cost, high-volume scale but in addition have such advance technology that they are far below the cost that could be expected due to size alone? In the past we have been concerned primarily with shifting a plant to a lower level on its cost curve. In view of the type of economy that exists should we not now be concerned with major cost adjustments -- those that fully utilize new technology in large-scale operation? The net result could be major cost reductions and a new market structure.

CREDIT AND INVENTORY STUDIES

John M. Bailey

Lower prices for farm products and higher prices for production supplies have accentuated the credit problem. In our studies we are endeavoring to learn of the policies and practices of those associations which are considered best on the basis of comparative records and considered opinion. Increased mechanization increased cash expense for fuels, expanded use of fertilizer, pesticides, feed supplements, and bulk delivery, have all had significant effects upon the types and amounts of inventory items.

Credit Growth. The trends in the better associations are alarming. While sales for the associations in our first study increased 12 percent, accounts receivable increased 62 percent over a 5-year period. Credit sales increased from 52 percent of total sales to 65 percent over the same period. The proportion of accounts under 30 days dropped from 53 percent to 43 percent of total accounts. The use of notes increased greatly and the aging of accounts was in a better relative position because of this but the credit was still on the books, only under a different name.

Costs of Credit. In seven associations the average estimated cost of \$100 of credit sales was estimated at \$1.70. This covered costs of extending, bookkeeping, collection, bad debts, and interest. Often the only costs considered when contemplating credit operations are those of bad debts and interest. In our study we found that these two cost elements accounted for only 31 percent of total cost. Also, this \$1.70 cost per \$100 credit sales was for those associations considered to have the best operations, so a more realistic cost figure would be in the neighborhood of \$2.50 to \$3.00 for \$100 of credit sales.

Management and patrons should be aware of these costs. Determined efforts must be made to shift this burden to existing credit agencies.

Duplication of Credit Activities. Practices are apparent which point to an inefficient use of resources. Farm supply cooperatives and other credit agencies, some of them co-ops, are all providing rural credit services. This duplication of services is a reflection on both supply co-ops and credit co-ops.

With so much said about the necessity for integration, I want to de-emphasize a phase of vertical integration in supply cooperatives - that of adding the credit service. At the same time I want to emphasize the urgency of PCA's horizontally integrating to the point of serving more farmers and existing borrowers more adequately. Most of the responsibility for this duplication of efforts rests with supply cooperatives because so few of them aggressively work to shift the credit operation to other credit agencies. It is also a reflection on other credit agencies for not aggressively meeting more adequately rural credit needs. Pilot operations where PCA's provide more rural credit to meet the demands of farm supply cooperatives are now being tested in two areas.

Inventory Management. In inventory management research we are likewise analyzing better associations to learn of improved purchasing and distribution methods as they relate to inventory. In purchasing we want to know who does the buying, what control is exercised, coordination of purchases, sources of supply, and the extent to which customer order, pooling and other techniques are utilized.

In selling we want to know the extent to which certain practices are followed -- those such as caroor delivery; discounts; advertising, both on the local and wholesale level; and use of fieldmen for order taking and educational purposes.

We are establishing inventory turnovers by commodities and are isolating and evaluating the factors which tend to reduce physical inventories relative to sales. Experience gained in making surveys and analyzing data in the broad area of inventory management will provide bases for current capital needs and facilities, both display and storage, as well as ways to reduce the carrying of excess stock due to obsolescence or seasonal demand. By analyzing monthly or seasonal fluctuations we can be helpful in financial planning for operating capital.

#### DISCUSSION

Asked whether he would suggest that subsidiary credit corporations be set up by co-ops to meet growers' credit needs, Mr. Bailey answered he would prefer to wait and see how PCA's meet the situation. He also felt that while such subsidiary corporations may make money for the agency, they are not saving money for the farmer. As to costs now charged by co-ops for credit, he said the cooperatives are not taking into account the total cost of extending such credit. He also pointed out that 2 percent of the members account for 27 percent of accounts receivable. While some cooperatives do extend cash discounts, many have no conception of the extent of the credit problem.

#### BUSINESS CHANGES AFFECTING COOPERATIVES

John H. Davis

Today I want to focus attention on the status and role of the farmer and farm organizations in an era of rapid technological change. The truth is that our farm economy stands on the threshold of what can become a new, golden era--an agribusiness era that can bring unprecedented prosperity to American agriculture, better living standards to our people and strengthened international relations to our nation.

However, in order to enter this golden era American agriculture must meet certain tough conditions imposed by technology. While on the one hand technology is a great servant of the farmer, on the other hand it is

a great upsetter of tradition and custom. In this respect it acts to outmode present operations and methods at the same time it is opening up new opportunities.

Today American agriculture is in trouble because as a whole it has not adequately adapted to technology. The main trouble is that less progress has been made in the adoption of modern marketing technology than in the adoption of production technology.

The truth is that the marketing structure of agriculture has lagged behind that of production for many years. The weakness is in the market mechanism as a system more than in the individual sectors and agencies that comprise it. This is because the system has been and still is highly segmented and disjointed. Most serious of all has been the lack of proper coordination between production on the farm and marketing operations off the farm.

The reason for this dilemma stems back to a basic characteristic of technology as it has evolved in the food-fiber sector of the economy -- to the fact that production is efficient in small units whereas marketing is efficient only in much larger units. Because of this difference production and marketing functions have largely developed under separate control and management.

Basically, this lack of coordination is the reason for farm surpluses and farm programs. The production side of agribusiness turns out commodities for which the marketing side has no outlet, at a satisfactory price. While this problem has been with us for decades -- almost since the start of the technological revolution, it has been getting worse and worse as production and marketing became progressively more and more out of gear.

To be sure, some farm and business leaders have long recognized this problem and have taken certain steps to remedy it. Farmers have created marketing cooperatives and some business firms have contracted ahead for farm output at planting time. More recently there have emerged such devices as marketing agreements and market orders and the pattern of vertical integration illustrated by the broiler industry. All of these represent efforts by farmers, businessmen, or both, to more closely relate the production and marketing of farm products.

In addition, there have emerged the farm price-support programs. These devices for eliminating the consequences of the imbalance between farm production and marketing by diverting into government hands the excess output which markets will not take.

While these efforts have been helpful, they have not solved the farm surplus problem. The disjointed nature of the farm market system still continues--particularly the lack of coordination between on-farm production and off-farm marketing operation--with the result that agriculture still suffers from glutted markets.

Today there are rumblings of far-reaching changes in farm market structures. For many commodities we will see virtually complete remodeling

of market structures. Basic in all of this will be the closer and closer linkage of on-farm production and off-farm marketing operations--a development commonly referred to as vertical integration. Actually, this development will be but an extension and expansion of what is now taking place.

Whether we like it or not, this type of development is coming. Technology is forcing it. Therefore, to fight against the vertical linkage of functions will become foolish. Rather we should gird ourselves to meet it and to take advantage of it. I believe we can even turn it into an opportunity if we pursue a proper course.

What is this proper course? The proper course is for farmers to band together so that they can take the lead in market improvement, development and expansion, even when this involves vertical integration. The point is that vertical integration is going to take place in the food-fiber sector of the economy whether farmers are active or not.

What will become of the farmer as such vertical integration takes place? The answer to this question depends on what the farmer does in his own behalf.

The future economic status of the unorganized farmer likely will become weaker and weaker, as long as he tries to stand alone. For him the only recourse will be to turn more and more to government for help. This, of course, we do not want.

The way out for the farmer is for him to band with other farmers in mutual efforts in order to resist the downward pressures generated at the processing and distributive levels. This will call for large, strong producer organizations. Fortunately, we already have a basis on which to build. In this category are numerous producer-commodity organizations. But, in general, these will have to be revitalized and in many instances even retooled if they are to play an effective role in market development and improvement.

The farm organization of the future must embody the following characteristics:

1. It must encompass enough farmers to form a base for the market structure of the sector of agriculture of which it is a part.
2. It must be farmer owned and farmer oriented,
3. It must have leadership and management at least as good and as progressive as that existing in other phases of the economy. (This means it must be willing to be fully competitive with other types of business in salaries, something which farm organizations generally lack today. In general, the best management proves to be the cheapest, even if the price tag seems high.)



4. It must have financial resources adequate to enable it to develop and maintain a balanced program of bargaining and pacesetting, in the interest of its members.
5. Behind these operations there must be an adequate research program that anticipates the future, evaluates alternatives and assists management in making sound decisions.
6. It must, where necessary, cooperate with other producer groups and with business firms in undertaking essential operations that it cannot do alone.
7. It must concentrate first on achieving answers to farm problems through teamwork before seeking help from government.
8. It must assume its role as a responsible member of the business community that comprises the American economy.

The thought may be running through your minds, we already have producer-commodity organizations like that. If you think this is so, then I have not made myself clear. As I see the picture, we have but the beginnings of the kinds of organizations I am describing. In fact, many present producer organizations are so deep in ruts that major re-organization measures will be required. In some cases it may prove to be easier to start new ones from scratch than to revitalize the old ones. At best, there are less than a half dozen producer organizations in the United States today that are even beginning to tackle the kind of market development job I am talking about. Even more serious, few today are even planning for the future in such terms.

Unless farmers move quickly to meet this challenge of the future through able leadership in their own organizations, agriculture will not fully enter the golden era that is in prospect. In accepting the challenge of the future farm leadership might do well to set a time objective for itself of 5 or 10 years in which to build market outlets and economic stability commensurate with agriculture's ability to produce. To hold his own in this fast-changing era farmers need to organize and work together more tightly and more effectively than ever before. The operations of most present-day farm organizations are grossly inadequate to meet this need. The basic weakness of these institutions stems back to inadequate management, particularly depth of management, and a failure to have sufficient research staff to adequately assess and evaluate alternative courses. This is a harsh statement, but if we are honest with ourselves, we must admit that it is true.

In a sentence, then, the status of the American farmer in an agri-business era is going to depend upon what he does in his own behalf. This is as it should be.

SESSION IV

Tuesday Afternoon, December 17, 1957  
Chairman: J. Kenneth Samuels

HOW CAN WE HELP COOPERATIVES IMPROVE  
AND MAINTAIN QUALITY?

INTRODUCTORY STATEMENT

C. G. Randell, Leader

Let us not underestimate the importance of quality of products in our marketing programs. It is one place where the cooperatives can get a foothold and really benefit if they capitalize on it. I have for you today two definitions of quality:

1. From a workshop in Michigan in 1951, "Quality is the combination of attributes of a product that have significance in determining the degree of acceptability of the product to users."
2. From our own conference another one, "Quality consists primarily of the characteristics of a product that affect the price a buyer is willing to pay."

Two avenues of approach appear to me:

1. Continue and extend the progress made to date by cooperatives that emphasize quality.
2. Since the agricultural revolution is upon us, we will no doubt see a lot more integration. We must see that cooperatives, in their integration of marketing, use high quality standards.

To do this we must critically examine the quality concept with its relation to established grades for the particular commodity to be sold. When I stopped over in Omaha, Nebr., a short time ago, I found that prime cattle were selling on the market there for some \$2 a hundred less than Choice cattle. I have seen Prime lamb carcasses selling at \$3 a hundred pounds less than Choice carcasses. Something must be wrong somewhere. It is about time we start to consider the consumer who is getting fed up with over fat pork, lamb, and beef.

Quality is naturally tied in with grading, but I wonder if some of the confusion arises from the fact that we base our grades on such easily measurable factors as size, shape, color, and uniformity rather than on elements of utility.

Dr. Herman M. Southworth of Pennsylvania State University thinks we may have erred in this direction. Take potatoes, for example. No matter how nice they look in the bag we do not grade them for use purposes such as baking, French fries, or boiling. Grades should be based on both utility and physical characteristics.<sup>1/</sup>

#### IMPROVING WOOL THROUGH BETTER HANDLING METHODS

Walter L. Hodde

Quality work has been done in conjunction with cost, price and engineering type projects, generally in cooperation with other agencies and cooperatives. Much of our work has been concerned with management aspects of the business. One of the basic considerations has been net returns to growers.

The objective of work in this area would be to obtain information on ways and means for increasing grower returns through changing form utility and improving quality. Policies proposed include (1) working with other agencies; (2) keeping abreast of research; (3) using informal leadership in planning with other agencies; (4) promoting cooperation between cooperatives and other agencies; and (5) preventing duplications and encroachments.

Some fields for proposed projects include (1) relation of Returns to basic quality; (2) objective appraisal and description of wools; (3) form utility and returns according to type of processor customer; (4) packaging; (5) preparation at shearing pens; (6) efficiency of preparation in warehouses; (7) profitability and feasibility of scouring and top-making; and (8) possibility of hedging according to type of wool.

#### IMPROVING QUALITY OF BEEF, PORK AND MUTTON

C. G. Randell

In livestock work we have emphasized grading for many years and tried to develop and publicize more accurate and useful grade standards. When I was in the livestock commission business in the early 1920's, we brought in groups of 4-H Club members and Vo-Ag students to the market for grading demonstrations. This program of grade education has been continued since. Our own publications, and USDA Technical Bulletins 57 and 65, both give major emphasis to quality.

The place to get quality in livestock, however, is way ahead of the market. To help producers make progress in sending high-quality

<sup>1/</sup> "Marketing Maine Potatoes in Maine and in Boston", G. W. Sprague, FCA Bulletin 51, June 1941. This consumer study was based, to a high degree on use made of potatoes by consumers.

animals to market, various efforts have been made. In the Southern States emphasis has been placed on feeder calf sales, in an effort to improve the quality of offerings and tap the northern markets for feeders. Talks on breeding and grading are made to growers at these sales. Two main recommendations we have made are (1) pooling feeder calves for better grading and (2) herd improvement. In our circular on the Glades Livestock Market - A Florida Operation (FCS Circular 13) these suggestions for improving quality are further discussed.

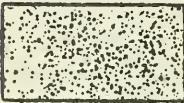
Improving Pork. Long years have been given in our Branch to improvement of pork for market. The trend of nutrition and home economics experts toward lean meat has had its effect on the market for fat pork. Per capita consumption of pork has declined 10 pounds since 1952. We pioneered in the program to match the live grading of hogs with the quality of meat in their carcasses. I visited Canada in 1926 and studied the live-hog grading there. We ran tests at the Detroit Packing Company plant in the 1930's and verified the fact that markets were paying too much for fat hogs and not enough for lean ones. This led to initiation of a program for paying premiums on meat-type hogs.

At the request of Detroit Packing Company, we purchased meat-type breeding stock from Beltsville, Md., Miles City, Mont., and Grand Rapids, Mich., and distributed them in Michigan. Later they were further distributed in the Shenandoah Valley of Virginia.

Cut-out tests made with funds obtainable under the Agricultural Marketing Act of 1946 enabled Ohio and Indiana producers to check their grading and establish a program of paying premiums on No. 1 hogs.

At present we are endeavoring to get under way a national survey of differentials paid for meat-type hogs. We are also planning to work with the Indiana producers' agencies in assisting with the development of pig pools.

Improving Lamb. We are and have been promoting lamb improvement in our Branch, especially with motion pictures and assistance in pool operations. Ira Stevens and R. L. Fox, in our auction analysis in Ohio, Indiana and Michigan, recommended selling lambs at auction on a grade basis. Preliminary studies show greater returns and less marketing expense by selling on a grade and pool basis direct from the pens. On one market day, one auction sold 650 pooled lambs in 17 minutes from pens. We hope to see far more lambs and calves sold on grade at both auction and terminal markets.

  
MAINTAINING AND IMPROVING QUALITY  
OF DAIRY PRODUCTS  
William J. Monroe

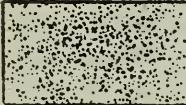
Quality problems of dairy products can be divided into two areas - sanitation, and flavor.

Milk, a highly perishable product which has enjoyed a high acceptance by consumers, can be a threat to the health of the public unless certain proven quality programs are carried out. The dairy industry has been quite successful in solving the problems of sanitation. The problems of flavor are the most pressing quality ones today.

The dairy industry has not exploited the whole demand structure for dairy products. I am sure that products could be produced and processed with distinct quality and price differentials in order to reach a larger market.

There is a need for research to determine the quality characteristics of certain products which are desired by various groups of people with different tastes and concepts of quality.

As consolidation and coordination of dairy cooperatives' continue, there will be more opportunity for larger cooperatives to make a greater contribution toward developing markets for products that exploit the various quality preferences of the market. Farmer Cooperative Service must develop interest and give assistance to dairy cooperatives in these fields of research. We should initiate certain projects on consumer research as it relates to quality. We should emphasize the need for quality and lend assistance to dairy cooperatives in the practical aspects of quality control. We could perhaps do this best through our service and educational programs.



### IMPROVING AND MAINTAINING QUALITY IN GRAIN ELEVATORS

Daniel H. McVey

Since grain has some inherent keeping qualities that make it easier to store than some other farm commodities, less attention has been devoted to quality maintenance. It is only recently that fumigation, artificial drying and aeration have been used to preserve quality.

In cooperation with Kansas State College we collected information from a 10 percent sample of the 1,440 country elevators. This revealed that the quality maintenance practices followed for wheat were far from uniform. For example, the number of turnings during a year varied from 1 to 12 times depending on custom and judgment. The amount of fumigant used varied from 1 to 4 gallons per 1,000 bushels and the number of applications from 1 to 4.

In the second phase of this study to determine the costs of quality maintenance, we found the cost per 1,000 bushels varied from \$8.66 to \$36. Electric power ranged from .40 cents to \$3.50, labor \$1.85 to \$10.74 and fumigants \$2.44 to \$14.04. Fumigant use ranged from 1.5 to 6 gallons and the number of turnings from 2 to 7 times. Since all wheat graded No. 1 at the beginning and end of the period, we wonder if some managers were overzealous.

In September, we initiated a drying project at the elevators in cooperation with Kansas State College. In this study, we hope to determine some of the drying problems encountered by local elevators, and the costs and practices of drying under various situations, and to develop criteria that can be used by cooperatives management in reaching decisions regarding installation and operation of grain drying equipment.

What do we do from here? We need information on aeration and its costs as compared with drying. We need information from other areas. What will work in Montana may not work in Georgia. How about farm versus elevator costs and benefits? What practices have the regional grain cooperatives developed? Much more research work is needed.

### DISCUSSION

In response to a question on live versus carcass grading, Mr. Randell pointed out that the carcass method is definitely best, but it is opposed by the trade. Cooperatives are operating on a live basis, and if they went on a carcass basis the grading would be done by the processor.

In discussing how to help cooperatives with their quality improvement programs, several points were brought out. We need to know better the benefits to a co-op of a quality program, and this ties in with knowing what the customer wants. There is always the problem of how far to go with quality and still be competitive on price. Finally, we must show processors the economic advantage of different prices based on different qualities as, for example, increased costs that may arise from poor-quality products going through a plant.

### HOW CAN WE HELP COOPERATIVES IMPROVE

#### PRICING TECHNIQUES AND CONDITIONS

#### INTRODUCTORY STATEMENT

Job K. Savage

Now I am not going to define pricing techniques and conditions, but I will try to describe them. Our panel will discuss prices from the point of view of the cooperative firm dealing with patrons and with its buyers. And, there may be some discussion of prices charged to cooperatives by their suppliers of goods and services.

I like to think of prices as performing three primary functions. They serve as (1) guides to production, (2) indicators of value, and (3) distributors of income to various segments of the economy. Now as we go about the task of helping cooperatives, we should consider that if price competition in our economy were perfect, our price problems would

be minor, because (1) price would equal cost; and (2) cooperatives would have no economic reason for being.

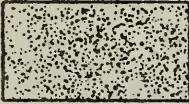
However, our economy is more imperfect than perfect. We do have cooperatives and they have pricing problems. Farmer Cooperative Service has helped solve some of them and we can help solve others.

Some of our price studies have dealt with dairy seasonal pricing, pricing milk according to use, pricing formulas for meat-type hogs, payment for eggs on a precise grade basis, pool pricing, quality discount pricing, and price bargaining. Also, we should not forget the considerable amount of service and educational work that we carry on in connection with pricing problems of cooperatives.

Recently I came across some ideas expressed by an economist as to what farmers could do to improve their economic position. Frankly, this economist was pretty pessimistic, and his statements are a real challenge to some of the ideas we have, such as the subject we are now discussing, "How We Can Help Cooperatives Improve Pricing Techniques and Conditions." His ideas, in summary form, were that the farmer can do relatively little to improve his position; advertising will not help because his product is not standardized; he cannot get together with other farmers to restrict output or to set price because farmers are far too numerous to organize themselves for such joint action; and he cannot gain market power by merging with competitors because even though he joined with hundreds of others their combined output would not be sufficient to influence price.

This economist does state three things farmers can do. They can decide what to plant, choose the methods of cultivating and harvesting, and sell when they choose. But once they have sent their crops to market they cannot influence price.

In effect he is saying that farmers have no market power and they cannot get together to bring about any. The question before us is: Do we have to accept these pessimistic statements or are there ways we can help cooperatives improve the farmer's economic position? At this time let's see what the panel has to say about this.

 PRICE RESEARCH AS APPLIED TO FCS RESEARCH

Stanley F. Krause

Method. Most FCS price research has included description of pricing methods and related institutional practices, has relied heavily on statistical price analysis by other agencies, and has included much "evaluation," and "appraisal" of pricing practices and situations. There has been no elaborate econometric analysis. Simple statistical procedures have been used where applicable and the data were not already available.

We were taught that price analysis involved testing results of certain pricing and institutional practices against the standard of an economic model, relying mainly on mathematical methods. We compared the relationships between prices in different areas, and compared the differences between farm prices and retail prices with the actual cost of processing and handling between these points. The basic ideas in such analysis are simple, though the tools used may be complicated.

It fits the role of FCS, in view of outside resources available, to rely heavily on other agencies and the colleges for the formal econometric analysis. We need to encourage and stimulate the other agencies to make studies that can be applied to problems of farmer cooperatives. We have an important intermediate role -- that of studying specific problems of cooperatives, applying whatever analysis is available, usually including some original analysis, and thus taking research results as close as possible to the problems of cooperatives.

We can be helpful in preparing educational reviews and manuels as well as in making original analyses.

Problems Studied. Most FCS price research has been in the marketing field, rather than purchasing. We have emphasized methods of payment to producers, rather than methods of pricing products for resale. We may have over stressed the comparative equity of different pricing methods and their efficiency in guiding production, neglecting analysis of price and bargaining methods for obtaining larger total returns for members of cooperatives.

Our study of fruit and vegetable bargaining associations illustrates appropriate studies of the relationship between pricing and bargaining. Fred Hulse is comparing returns to producers by different types of organizations to see if one form of organization has achieved better results than the others.

The current interest in integration will call for more emphasis of price research. Most of the incentive for vertical integration has to do with bargaining power and pricing results, rather than operating savings. Therefore we will have to turn somewhat from analysis of operating costs to pricing studies to help cooperatives with their problems.

This relationship between bargaining, pricing, and organizational questions again calls attention to our need to rely on other agencies and the colleges for assistance and basic information. Most FCS work is on borderlines between the professional specializations. We need the results of work by these other specialists in making our studies. We can serve as catalysts for the ideas of many, applying those ideas to the fundamental and applied problems of cooperatives.

## PRICING PROBLEMS OF MARKETING COOPERATIVES

Irwin W. Rust

The pricing problem -- that is pricing decision-making -- is two-directional. There is the pricing of products to buyers, and the pricing of net returns to producer-patrons.

The common method of pricing products to buyers is to (1) call the buyer and ask what he will pay, and (2) sell at that price. The "ideal" method is to (1) analyze costs, (2) base asking prices on costs, (3) analyze market factors such as competition supply, consumer income, and market tone, and then (4) negotiate the final price. FCS can help cooperatives improve pricing to buyers by research, service and education designed to move pricing away from the common toward the "ideal".

In pricing returns to producers, three methods are most usual for marketing cooperatives:

1. Outright purchase by the co-op from the producer,
2. Cooperative sells produce for the member's account -- an agency relationship, and
3. Pool proceeds of sales and pay producers on a pro rata basis.

Purchasing from the producer for resale has these advantages: (1) Producer receives immediate payment; and, (2) it may help cooperatives secure additional patronage.

Disadvantages of this method include: (1) Cooperatives need more capital; (2) it places a burden on management; and (3) wrong market estimates could cause financial disaster.

Advantages of selling for the grower's account include: (1) Producer receives the actual price his goods brought -- less customary service charges; (2) it keys price to quality; and (3) it allows the producer to pick his own market -- to gamble a little.

Some of the disadvantages of this method are: (1) It requires extra accounting; (2) there may be a lag between delivery and payment to grower; and (3) the producer assumes all risks of a fluctuating market -- contrary to co-op principle and philosophy.

Pooling, a method of setting prices to producers that is widely used by cooperatives, involves two essential activities: (1) Mingling or grouping together under unified action or control any function of marketing; and (2) determination of the results of such group action and allocation to each participant in the pool of his share of the sales returns, service, expenses or risks that may arise therefrom.

Advantages of pooling include: (1) It spreads marketing risks; (2) it permits management to plan an efficient sales program; (3) it may be easier to borrow working capital; (4) it may serve as a source of short-term operating funds; and (5) it establishes a premium on quality.

Two disadvantages of this method are: (1) It may cause delay in final settlement with the producer; and (2) it calls for careful attention to accurate grading with not too many grades, to length of pool, to accurate accounting, to equitable cost allocation, to payment by grade, to skillful merchandising throughout the pool period, and to fair treatment of all members.

How can FCS help cooperatives make the most efficient use of these various methods of pricing? In general, we can examine and try to minimize the various disadvantages of each method through our research, service and educational activities.

#### PRICING PROBLEMS OF FARM SUPPLY COOPERATIVES

Warren K. Trotter

I would like to discuss briefly what I believe are several problem areas in pricing.

The first problem area has to do with pricing to large users. Until recent years farm supply cooperatives generally followed the policy of one price for everybody. Such a policy seemed to coincide with the cooperative principle of one man, one vote.

In recent years, however, many cooperatives have recognized differences in the cost of serving large and small farmers. This recognition has led to discounts on the basis of quantity purchased. Such discounts make for more equitable treatment of large users but they have not provided a complete answer.

What type of service would best fit the needs of large users? What is a fair margin for the large user compared to the relatively small user?

The problem of pricing to large users has been intensified in recent years, particularly in the fertilizer industry, by the fierce competitive situation in this industry. Private fertilizer manufacturers have given dealerships to the larger farmers. Many such farmers claim they can buy fertilizer as cheaply as the local cooperative outlet.

A second problem area has to do with pricing as it relates to credit. Recent studies by our Farm Supplies Branch have shown that credit is an added service that costs around 2 cents for each dollar of credit extended. Yet most retail farm supply stores fail to charge for this extra service. This results in inequitable treatment for those who pay cash and seems to greatly intensify the accounts receivable problem.

A third problem area has to do with pricing as it relates to location of patrons. Some cooperatives price on an f.o.b. basis, others quote a flat delivery price for their entire territory; and still others use zone or area prices based on competitive situations in various parts of the territory, or on distances from plants or warehouses.

M. A. Abrahamsen has been working on a recent request for assistance which has been largely a problem of applying a pricing system over a territory where competition varies from place to place. The cooperative had difficulty in establishing outlets in a heavy consumption area, where it felt it needed to be to get volume for its plant. To what extent would this cooperative be justified in reducing its margins in certain areas in order to increase the overall volume through its manufacturing plant? To answer that question we would need to know something of the shape of the cooperative's cost curve and also its sales curve in different parts of the territory. Such information is not available but it may be possible to arrive at reasonably good estimates, which would be of considerable help in such situations.

A fourth problem area in pricing has to do with the seasonality of demand for certain farm supply items.

The heaviest demand for fertilizer is in the spring months. In order to relieve congestion at fertilizer plants during these months, spread the workload throughout the year, and make more efficient use of storage space, many cooperatives offer off-season or early movement discounts. Some cooperatives have had very good success with these programs while others have had very little success. I think our Service might make a contribution here by describing various early movement programs and determining their effect on off-season volume. The feasibility of early movement programs for seeds, pesticides, petroleum and possibly other farm supply items might also be examined.

A fifth problem area is that of pricing as it relates to quality. Most farm supply cooperatives were started on a program of quality and service. In recent years competition has been centering more and more on price. Cooperative managers are concerned with such questions as: What is the farmer's attitude toward price? Are cooperatives giving too much emphasis to quality and service? Should they place more emphasis on price?

The sixth and last problem area I will mention is that of pricing as it relates to patronage refund policy. The desire to have a good net margin record no doubt has a great deal of influence on pricing policy. Which is better from a membership relations standpoint -- good partonage refunds or low initial prices?

A related problem has to do with method of financing as it relates to pricing. Cooperatives using the revolving fund method must consider it in pricing to insure a continuous flow of capital and to maintain a revolving period of reasonable length. Does conventional capital stock financing offer advantages in pricing which the revolving fund method does not offer?

I have mentioned a number of problem areas in pricing farm supplies without attempting to rank them as to their relative importance. Inasmuch as we have had almost no requests for work in this area in the past, we might assume that pricing has not been among the major problems of farm supply cooperatives. I believe, however, it has increased in importance in recent years and will become more and more important in years to come.

All the areas above are probably worthy of considerable attention. However, there are limits to our resources. I think perhaps the first step should be a study of rather broad scope. Such a study would be useful to describe various pricing techniques and situations, point out some advantages and disadvantages of each, and pinpoint areas for more detailed study.

#### PRICE POLICY - A CHALLENGE TO COOPERATIVES

Otis T. Weaver

Cooperatives have pricing policies in transactions with members and also with other business firms in buying production supplies or in selling farm products. The most difficult problems arise in pricing policies with members. Pricing policies with members may be classified under three general headings: Pooling -- an agency relationship -- and outright purchase at competitive prices.

In a pooling arrangement the final price is not determined until after all costs and receipts are known. This shifts all of the risks as to price determination or change from the association to the members.

Under an agency relationship the cooperative merely acts as a broker or agent in buying or selling products for farmers. Usually the cooperative receives a fixed fee per unit for its services. This is added to the price of buying supplies or deducted if marketing commodities. The cooperative assumes no risk in such transactions.

Under outright purchases at competitive prices all price and inventory risks are born by the association. Any net margins realized by the association are distributed as patronage refunds. Operating losses are either prorated on a volume basis or written off against individual or general net worth equities.

Pooling operations or agency relationships are more consistent with cooperative principles than competitive prices. Financial benefits to members are related to risks assumed. One of the greatest hazards of outright purchase at competitive prices is that the cooperative is encouraged to imitate business tactics of general business firms. Members tend to deal with the cooperative solely on a price basis and consider the association as just another business firm. Such a relationship between a cooperative and its members may destroy the concept that a cooperative is the buying or selling department of individual farm businesses.

SESSION V.

Wednesday Morning, December 18, 1957

Chairman: Kelsey B. Gardner

CURRENT LEGAL AND TAX PROBLEMS OF COOPERATIVES

Raymond J. Mischler

In a recent case, decided by the U. S. District Court for the District of Idaho, Northern Division, on November 27, 1957, a purchasing cooperative's patronage contract was sustained as not being in unreasonable restraint of trade and the liquidated damages clause of the contract was endorsed. This is a most significant decision, being the first to pass on the point at issue. It held that the full requirements contracts which Pacific Supply Cooperative has with its locals, and from which any member may withdraw at the end of any fiscal year by giving written notice at least 60 days prior to the annual meeting of the association, were "not in restraint of trade within the meaning of any law of the United States or the State of Idaho or of the State of Oregon, under which laws 'PACIFIC' was organized."

In Long Poultry Farms, Inc. v. Commissioner, the Fourth Circuit Court of Appeals held that a patronage refund credit allocated to the account of a member who kept his books and recorded his income on an accrual basis was not a properly accruable item of income to the member in the year in which the allocation was made. This decision is consistent with the results reached in earlier decisions in cases involving "cash basis" taxpayers. The decision rejects in strong language the receipt and reinvestment theory as applied to the credits involved in this case. The case is a further indication that Treasury will probably recommend legislation to revise the law in 1958.

The taxability to nonexempt cooperatives of net margins derived from business done with CCC, is still an unsettled question. Several cases are pending but no decision has yet been reached.

The Internal Revenue Service has disallowed patronage exclusions claimed by an exempt Texas marketing cooperative which failed to get its notices out within the 8 1/2-month period allowed by the Internal Revenue Code of 1954. Efforts by the cooperative's accountant to get the amounts allowed in the year in which the notices actually reached the patrons have not been successful. The Internal Revenue Service claims the amounts are not excludable in such years since they do not represent distributions of amounts previously retained as reasonable reserves, as required by Treasury regulations.

In Colorado, the Internal Revenue Service has ruled in one case that a taxable cooperative, on the accrual basis, may not deduct in the tax year 1956-1957 patronage refunds made pursuant to its bylaws on patronage of the fiscal year ending on March 31, 1957, since it did not notify the patrons of the amounts thereof prior to 2 1/2 months following the close of the fiscal year (the due date of the return).

Several milk cooperatives and the National Milk Producers Federation have brought suit against the National Tax Equality Association charging that the latter organization has violated the Sherman antitrust act by engaging in destructive propaganda and other unfair trade practices in its campaign against cooperatives.

**DISCUSSION**

Lyman S. Hulbert, Leader

Mr. Hulbert remarked that the Pacific Supply Cooperative case was the first to his knowledge where courts have held that the full supply contracts of a regional supply cooperative are valid. The Supreme Court established the general rule applicable to full supply contracts when it held Standard Oil of California was in restraint of trade under the Sherman Act in the full supply contracts it used with local dealers.

Many exempt associations are, for the first time, being audited by Internal Revenue. Field agents or District Directors cannot revoke exemptions. They can only recommend revocations which are made in Washington only.

The taxability of patrons has not been fully tested. There has been no "right kind" of case to date. We need a good test case -- but none has reached the courts -- where a marketing association has a clearly expressed contract in its bylaws to pay the members' savings by offset against their obligations to purchase stock in the association. This type of case would be useful. AT&T employees buy stock on a withholding (payroll deduction) plan, but are taxed on the face amount so invested. Cooperative-patron contractual arrangement should be considered analogous. Internal Revenue and the courts are not together on the present law. I am confident that Internal Revenue has collected large amounts of money from farmers on amounts they have invested in cooperatives.

Mr. Mischler remarked that farmers cannot take a tax loss at the time the loss is sustained by the cooperative and allocated against patrons' equities. A farmer can claim a loss only when the credit is completely liquidated. In a Texas case where tax notices were not sent out by management within the time required, the Internal Revenue Service has levied a deficiency against the cooperative. If cooperatives are ever required to pay 52 percent income tax, by virtue of a tax law change, it will affect the revolving fund method of financing. For that reason, consideration should be given to other means of raising capital in cooperatives.

Mr. Gardner stated that this situation would raise additional problems in financing cooperatives, but, in essence, would force cooperatives to do more in the whole field of member understanding. It would make still more difficult the job of getting over to members an adequate understanding of their financing responsibilities to their cooperatives.

HOW CAN WE HELP COOPERATIVES IMPROVE UNDERSTANDING  
AND PARTICIPATION OF FARMER MEMBERS?

INTRODUCTORY STATEMENT

John H. Heckman

The term "membership relations" is certainly not new; neither is the field as a cooperative activity new. However, the treatment of it as a specific area, both by cooperatives and by public agencies, is much newer. Until fairly recently, the terms, membership relations, public relations, and education were largely used interchangeably. In fact, a review of the literature, as late as 1949, failed to reveal a definition of membership relations. Individual research projects had stabbed deeply into particular phases of membership relations. However, they had not been fitted into a coordinated pattern.

The same is true of the membership programs of cooperatives. A few cooperatives have long had well-defined membership programs in charge of specially trained directors. A larger number had membership relations directors who were really the association handy men with many unrelated assignments.

The past decade has seen a rapid shift in both of these areas. Membership relations has now become recognized as a definite field. The programs involve many common practices, tools and personnel with public relations and education but have completely different objectives. Generally the membership relations field is regarded as "The relationships required to bring about the necessary two-way flow of information and responsibilities between the members and the management of agricultural cooperatives." Here the term "management" includes all association personnel and the directors as representatives of the members. Also, as at the family farm, the term "members" is used broadly and includes the entire family.

Thus, a complete membership relations program now consists of a series of five complete and unfettered two-way lines of communication and responsibility between the operational management and the members. These five "membership relations" lines are (1) between farmer-patrons and management; (2) between management and the board; (3) between the board and the farmer-patrons; (4) between the management and the farm wives; and (5) between the management and the youth.

From the producer members' standpoint, keeping these lines open involves three processes on the part of the cooperative's membership program. These processes are (1) information; (2) motivation; and (3) participation.

The first one -- information -- is the necessary start. An uninformed member just can't be a competent molder of association policy. Information alone, however, is not sufficient. Many cooperatives consider

the "informed member" the goal of a membership relations program -- but it is merely the start. We can drown him with information and he still may not be an effective member. The information must be backed by both the desire and the ability to do something about it.

Here is where number two -- motivation -- comes in. The desire to do something about it is the members' responsibility. Encouraging him to do something about it and making it possible for him to do something about it is the association's job. Admittedly, it is the member's responsibility to use the information received and to act upon it on his own initiative. A small proportion will do this. However, the cooperatives who rely on this being done may have trouble in obtaining quorums, have lukewarm participation and may be tagged as a "machine run" outfit. So incentives become quite a factor in membership relations programs. In other words, both lines must be kept open. That is where the third factor -- participation -- comes in. An "informed member" who wants to "participate" should have an opportunity to do so. Here the term "member" applies to the whole family -- men, women and youth. Sometimes associations get careless and let the return line get rusty from little use, or it gets cut entirely.

During this decade, the cooperatives have also been increasing their emphasis on membership relations and upgrading their membership departments. The former handy man has grown into a department head of professional stature.

Needless to say this field has scarcely been scratched. As a result of urgency, most past and present work of the Branch has been and is in the fields of techniques and tools. The first objective was to develop tools for programs in each of the five areas. This has been partially accomplished. Now, a start is being made in studies of motivations.



### WHAT IS BEING DONE AND WHAT SHOULD BE DONE?

Oscar R. LeBeau

Our staff is endeavoring to conduct a balanced program of research, service and education. This program is designed to develop and keep open the membership channels that are indicated by the flannelgraph layout previously presented.

Some typical research activities that have been completed include: (1) educational practices of farmer cooperatives; (2) patrons' appraisal of cooperative relations; (3) cooperative business training for farm youth; (4) how women can help their farmer co-ops; and (5) the work of State cooperative councils.

Currently under way, we have a study of the membership relations of local cooperatives and one of the communication networks in farmer cooperatives.

Typical of completed service activities are consulting assistance on membership relations problems of the Dairymen's Cooperative Sales Association, Pittsburgh, Pa.; an analysis of the advisory council program of the Ohio Farm Bureau; and a brief analysis of the farm home advisory committee program of Southern States Cooperative, Richmond, Va.

Service activities currently under way are membership relations problems of the Florida Citrus Exchange, Tampa, and a membership study of the Milk Producers Federation of Cleveland, Inc.

The Membership Relations Branch maintains an extensive educational program with cooperative leaders and teachers. Most of this takes the form of participation in workshops, clinics, conferences, short courses, or annual meetings. Substantial attention is given to providing farm business training to vo-ag students and 4-H club members.

The Service has available a large list of educational circulars, and educational exhibits are presented regularly at the summer session of the American Institute of Cooperation and at various other educational conferences. More than 11,200 FCS circulars were distributed at the 1957 AIC summer conference. A membership relations sectional meeting is a part of each AIC summer conference. Our Branch also assists each year with a number of workshops for managers and directors of cooperatives.

The foregoing educational activities are among our most economical services because: (1) They utilize the subject matter already available from our research and service projects; (2) they reach a relatively large number of people; and (3) by working with other educational agencies the effectiveness of our efforts is pyramided manyfold.

There are additional things that need doing. We need basic research on such subjects as the effectiveness of various techniques of cooperative membership communications; the place of meetings in membership relations work; the experiences of cooperatives in using membership agreements; and the need to look further at neighborhood advisory councils as a membership relations device.

A real opportunity exists for helping the larger cooperatives with short membership surveys. Also an effective way to utilize our research and educational experience is that of rendering consultatory assistance to the research projects conducted by various State agricultural experiment stations and similar agencies.

Other areas in which we will be working include clinics for membership relations directors, workshops for managers and directors and educational workshops for vocational agricultural and extension workers. We need to revise many of our education aids, and we need to be in position to respond to increasing requests for assistance to, and expansion of, various State cooperative council programs.

Cooperative education must be a continuous and repetitive process. While the older members may remember the adverse circumstances which led to the organization of the cooperative in their community, it cannot be assumed

that their sons and daughters -- the future agricultural leaders -- will be loyal to the association simply because of its past. Adequate opportunities for farm business training must be provided. Cooperatives should take the lead.

One of the great sources of unheralded help and influence has been the members' wives. Enlisting this womanpower in behalf of the cooperative educational program should be a major challenge. Only a handful of cooperatives have recognized this potential source of assistance.



JOINT WORK OF POULTRY BRANCH  
WITH MEMBERSHIP RELATIONS BRANCH  
Henry W. Bradford

Our work with egg and poultry cooperatives consists to a large degree of advising with association officials on all phases of their operations. Because of our diversified work, we as researchers must have considerably more than a general knowledge of the operations of cooperatives if we are to render competent service to them. While few of us are specialists or authorities in all the business operations of cooperatives, we are fortunate in having specialists in FCS on whom we can call for advise on finance, transportation, taxation, or membership relations.

In 1955, the Poultry Branch presented a case study report to a poultry association. A visit to the cooperative before starting the study revealed that one of its major problems pertained to member relations. So, right from the beginning of the study we brought in the Membership Relations Branch. John Heckman and Oscar LeBeau helped formulate the plans and overall approach. They helped draft a producer questionnaire-- the part pertaining to member relations -- and later they reviewed the Membership Relations chapter of the report and made suggestions.

In order to receive effective and maximum assistance from other Branches, I believe it important to conduct a study in the order previously mentioned; that is, confer with them, first, on the overall plan and approach; second, on setting up questionnaires and other work forms pertinent to the subject matter; and, third, recognize that because they have worked with us on a job from the "ground floor," they are in much better position to offer concrete suggestions when reviewing the written report. In the past few months we have worked with the Membership Relations Branch on two other projects.

Many questions of co-op officials and association problems of today relate directly to member relations and public relations. Co-op personnel, by and large, are competent from the day-to-day business and plant efficiency standpoints. However, much progress is yet to be made in the employee, member, and public relations field.

To prepare ourselves better for these contacts and to keep abreast of association activities, I am wondering whether it should be a practice of FCS to send copies of field trip reports, or excerpts from them, to the Branches involved. In this way we will be further coordinating the activities of our Service.

JOINT WORK WITH MEMBERSHIP RELATIONS BRANCH

Job K. Savage

I have several occasions worked very closely with John Heckman and Oscar LeBeau on research projects having membership relations phases, and they have made important contributions.

I think we can agree that there isn't a research, service, or educational project in this agency that doesn't have a membership relations angle to it. The question is this: How many times do we recognize it as such and then consult with the Membership Relations Branch regarding the matter?

I have consulted with them on numerous occasions and have benefited thereby. For example: In the Special Crops Branch we have underway a project on the marketing of forest products by a cooperative. An important section of this work relates to determining how members are likely to react to various plans to market their forest products. Their reactions will invariably be greatly influenced by their understanding and participation in their forest products association and in other cooperatives they are familiar with.

Also involved is how to communicate ideas back and forth between the association and membership and how to give membership a better understanding of ways their association can help them. All these problems are in the membership relations area. And, there have been other studies on which the Membership Relations Branch gave me assistance in organizing and developing the membership relations section of the schedule. Also, this Branch has been very helpful in reviewing manuscripts.

Quite frequently we are asked to present our findings to an association's board or to the membership. This is also a problem the Membership Relations Branch can help with. Their ideas on use of the flannelgraph, flip charts and other communication techniques are sound. We really should have another workshop in which the art of presenting ideas and findings could be more fully explored.

MORE THAT NEEDS DOING

J. K. Stern

Membership Relations activities are challenging because you are working with people. It is good to see Membership Relations coming into its own, growing in stature, and being recognized as a necessary part of the co-op program. Membership relations and commodity operations are definitely interrelated -- in fact, they are inseparable and both are very important.

The trend to fewer and larger farms plus more "rurban" members, presents a membership relations problem as well as an operations problem. Should the co-op serve one, the other, or both? Do we need new co-ops, or should we adapt present co-ops to serve wider population areas?

In the extremes of present-day big and little farmers, is the one-man-one-vote principle logical? Is the one price setup best? What about volume discounts? As we realize increases in tonnage volume, what about improvements in membership relations? Are we making the same progress with youth groups, women's organizations and related groups?

We have confusion of indoctrination with overlapping of territories, such as PCA, REA, State co-op councils and regional cooperatives. These organizations must play a bigger role in getting members to express themselves and take part in co-op activities.

We need to use two-way communications through more and better membership relations activities; improve our use of terminology -- for example, patron not customer; and keep a healthy cross-section of member opinion alive at all times. Our promotion and merchandising is good, but often it means that the member doesn't understand his role in the co-op picture. Where the member doesn't understand his role and his responsibility, he usually doesn't act. He thinks of himself as a customer -- not a co-op member.

We should continue to encourage cooperation between FCS and various other agencies in Government, colleges and other institutions in working on problems of quality. FCS should be continually informed on quality problems that are specific to cooperatives.

SESSION VI

Wednesday Afternoon, December 18, 1957

Chairman: Joseph G. Knapp

OUR OPEN HOUSE - MEMBERS' DAY

Seeber C. Tarbell

One of the big problems facing co-ops is that of annual meetings. We always have good annual meeting programs but frequently have poor member attendance. Sometimes only 10 to 15 percent of volume is represented and often members with largest annual purchase volume do not attend.

About 1 year ago we met with all district managers and member committees to discuss the problem and evaluate the various types of membership meetings held in the G.L.F. area. The various types of official annual meetings evaluated were conventions, barbecues and dinners. We also evaluated special meetings such as enlarged committee meetings, open house and clinics. Factors included in these evaluations were elections, operating information, "Sell" G.L.F., discussion, volume building (special and general), and goodwill.

On the basis of this evaluation, G.L.F.'s new program discourages barbecues since they are too loosely coordinated for business promotion. We stress dinner meetings since the unit is relatively small and more workable. We will continue to use conventional meetings where they have been successful.

We now consider as best a combination of open house followed by enlarged committee meetings. Under this arrangement elections are held at open house with nominating committee to present nominees, biographies of nominees prepared in advance, and use of ballots and voting booths. Operating statements are passed out individually, and questionnaires used for expression of member ideas. Special prizes, displays, and so on are used to stimulate attendance at the open house.

Advantages of open house and enlarged committees are as follows:

They provide better participation in elections. Elections are more dignified (voting by ballot in booths). We already have 140 communities using open house and we expect 200 to use them. Attendance is up 25 percent and voting is up 15 to 27 percent over last year. In terms of farmer participation and committee participation and reaction, the results are good. The cost is below that for barbecue and dinner and about the same as for regular meetings. And open house attracts more people, while the enlarged committee gets much closer to members, especially the better farmers.

## DISCUSSION

In answer to a number of questions, Mr. Tarbell made these responses:

We realize the new plan of open house days is popular, partly because it is new. However, the new plan permits voting on directors only; and where policy or other matters must be acted upon, regular type meetings must be held. The open house sessions are less expensive than other (dinner) meetings and reach more people. Open house and enlarged committee type meetings work well together - one provides a means of reaching many farmers and the other makes intensive work (with small groups) possible. Clinic type meetings are used mostly for information on specific commodities or services. So far open houses have been used on only a limited basis with our marketing groups.

## HOW CAN WE HELP COOPERATIVES STRENGTHEN THEIR BOARDS OF DIRECTORS?

### INTRODUCTORY STATEMENT

Helim H. Hulbert

This is a tremendously important area because the board of directors is, or should be, the policy making group. The help Farmer Cooperative Service can give cooperatives to strengthen their boards of directors must, of necessity, lie in the fields of research, service and education. These are the only areas where we are authorized to work. But what kind of research? What kind of service? And what kind of education is needed to strengthen the performance of directors? What is the best way for us to break through? That's the job that's laid out for us this afternoon.

This entire area of strengthening the performance of boards of directors of farmer cooperatives is a very challenging one. As present day cooperatives have grown and taken on additional functions, operations have become more involved. The need for directors with greater capacity to deal with the more complex organizational, operating and financing problems of large cooperative enterprises is a very real and genuine one. FCS has recognized this problem area and has research projects now on its drawing boards designed to help cooperatives meet their complicated situations head-on.

The problem of strengthening and improving the performance of directors has many angles. It involves such questions as selection and election of better-qualified men to serve as directors, a fuller recognition of the accountability of the board to direct the affairs of the association, and a better understanding of the responsibilities of directors. In addition, the problem includes recognition on the part of the board of their responsibilities to maintain and preserve the cooperative character and status of the business enterprise.

To orient us in this discussion and in the problems involved, the program committee has arranged to have a board of directors' meeting as a part of this afternoon's session. Observe this meeting carefully for we shall have discussion at the close of our presentation at which time you will have an opportunity to check your observations.

#### A MODEL BOARD MEETING

Participants: Robert J. Byrne, Chairman; W. C. Bowser, J. C. Eiland, Fred E. Hulse, B. D. Miner, W. F. Nicklas, E. J. Perdue, and C. B. Robbins

This Model Board Meeting pointed up (in satire) the things good co-op boards should not do -- such as: (1) Begin late; (2) meet irregularly; (3) omit minutes; (4) disregard agenda; (5) neglect good board procedures; (6) slight importance of accounts receivable problems; (7) accept poorly prepared manager's report and financial statement; (8) approve the practice of nepotism by the manager; and (9) show unconcern for proper member services and adequate personnel.

#### DUTIES AND RESPONSIBILITIES OF DIRECTORS

Andrew W. McKay

Directors of cooperatives have three main duties: (1) To formulate and adopt policies for the conduct of the business; (2) to select a manager to carry out these policies; and (3) to appraise the results produced by the policies adopted.

Directors' duties and responsibilities are important, always. A board of directors should be neither a rubber stamp nor a board of managers. The duty of directors is to set policies and see that the program is properly administered. When the distinction between policy and administration is understood, the difference between duties and responsibilities of directors and managers becomes clearer. Policy means "a settled course adopted and followed by a government, institution, body or individual." Administration refers to performance of the executive duties of a business organization.

What are the personal qualifications of a good director? He must be loyal to aims and purposes of the association; be a good manager of his own business; be a good thinker with leadership qualities; be cooperative with others and a builder of goodwill for the association; and finally, he must understand the role of a director. He must realize that he has no added authority as an individual. His authority as a board member is exercised only in a regularly called meeting of the board.

As a part of his legal responsibility, a director has responsibility to the members of the association for the "prudent and diligent" conduct

of the affairs of the association, and responsibility to the association means complete loyalty to the aims and purposes of the cooperative. In addition a director has a responsibility to himself and his board associates. He must be able to work with them as a team.

FCS might be able to contribute to the clarification of the duties and responsibilities of directors by preparing an educational circular outlining duties and responsibilities of directors and discussing critically the methods of selecting directors.

#### SELECTION AND ELECTION OF DIRECTORS

Nelda Griffin

The selection and training of directors has not kept pace with the growth and complexity of cooperative enterprises. Limited capabilities of directors often hinder the potential growth of cooperatives.

How may cooperatives secure better directors? As I see it, the four most important ways are as follows:

1. By use of a nominating committee. This method enables more careful survey and selection of qualified candidates; it enables the membership to study qualifications of candidates prior to election; and it eliminates part of the risk of chance election and selection for personal reasons. Of course, members may still have free choice of nominating from the floor if they so desire.
2. By selecting at least two candidates for each vacancy. This practice provides a choice, makes voting no mere formality, increases interest on the part of membership in elections, and insures the membership of broader representation for board positions.
3. By electing members to the board strictly on their qualifications for the position. When the best men are chosen for the position, it increases the ability of the board and thereby strengthens the organization; it increases the chance of success for the cooperative program; it challenges the membership; and it enhances the prestige of the organization in the community.
4. By always using the secret ballot. This method is fair to all; it is business-like; and it eliminates part of the chance for favoritism. It is most widely accepted and used.

DIRECTOR TRAINING CONFERENCES

Raymond L. Fox

Director training conferences are important because of the great responsibility of any board of directors, because many farmers selected as directors are inexperienced, and because of rapid technological changes in farm and co-op operations.

Training conferences and clinics mean, for the participants, a willingness to learn and, if necessary, to change their state of mind; a daring to do things differently; and a willingness to keep abreast of changing times.

All educational and cooperating agencies on the regional, State or National level, should employ more and better training facilities for co-op directors. Director training may be held jointly with management training, but it is usually better to hold separate schools or courses.

Suggested subjects for director conferences include: Financing; budget; audits; marketing; articles and bylaws; plans for cooperatives; policies under which they can operate; local meetings; annual meetings; relation of co-ops with other segments of community, teachers, county agents, clubs and other cooperatives; and committee assignments. This in itself is an excellent training technique. A director attending a meeting will develop a greater interest if assigned to a definite committee that has a specific job to do and will retain much more of what is said that can be used with his cooperative than he will by just listening.

Other suggested topics are laws and regulations relating particularly to cooperatives; public relations and education for the membership; defining the responsibilities of board and manager; opposing those who would destroy co-ops; and training youth who will take over at a later period.

What are some of the typical results of training conferences? Training conferences usually result in better organized board meetings; better preparation for board and annual meetings; better use of board committees for handling the workload of directors; and recognition of "mutual" problems of cooperatives -- especially local cooperatives.

DIRECTORS' COMPENSATION, DIRECTORS' TENURE,  
JUNIOR BOARDS OF DIRECTORS  
Helim H. Hulbert

Directors Compensation. FCS has limited information on directors compensation. We need more research in this area. We need to know standards for establishing per diem, if any exists. Responsibilities for directors of different cooperatives vary -- responsibility being greater for example, for the directors of large, integrated regional cooperatives than for

smaller local associations. Standards of compensation probably should be commensurate to time spent and responsibilities carried. There would have to be exceptions, however, to this general rule.

Compensations should be sufficiently high so that directors are not forced to decline board membership, solely for monetary reasons, yet not too high so as to attract the wrong, professional type of directors.

Directors' Tenure. The question of board tenure is important because of the time required to train new directors, and the risk of losing the best man (as well as the weak ones) by limiting tenure. The problem of directors' tenure arises more frequently from retaining weak directors than from strong directors.

How can FCS help cooperatives in this area? We can share our experience; set up and publicize qualification standards, and recommend bylaw changes, to aid cooperatives in this matter. We can also direct our educational efforts toward the importance of not electing and re-electing the wrong men as directors. Of course, the best solution is to never nominate those who would make weak directors. But once nominated and elected, it would seem wise to provide for rotating them out of office systematically and replacing them with stronger men.

Junior Boards of Directors. The objective of Junior Boards of Directors is to provide training for strong potential directors. Junior board training is actually on-the-job training for directors. Junior directors usually serve 1 year, serve on regular committees, share board committee workload, and so on, but never vote. FCS can assist in promoting the Junior Board idea through our information and educational facilities and by personal contacts with directors on field trips.

#### DISCUSSION

In answering questions on "How We Can Help Cooperatives Strengthen Their Boards of Directors," Mr. McKay made the following points: Publication of an educational circular outlining general qualifications and duties of directors - and even a check list of duties - might be helpful. The duties and qualifications of directors include (1) loyalty to the aims and purposes of the cooperative, (2) leadership ability, (3) business ability, and (4) ability to work harmoniously with others. Directors may be either conservative or progressive so long as they work together harmoniously. Directors should periodically appraise the results of policies, even to the extent of making special audits, to make sure the manager is carrying out board policies.

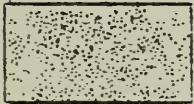
Miss Griffin felt that while each director cannot be expected to possess all the desired qualities of an ideal director, a well-balanced board will have all or most of the desired qualities - even a balance of age and youth. An exceptionally good board member need not necessarily be lost to the board on expiration of his term. He can be used in a special capacity as a consultant or advisor (until eligible for reelection) or

appointed to serve on a co-op committee. In the absence of a formal arrangement, he can be invited to attend board meetings, present his ideas and opinions, and keep before the board important previous discussions and decisions.

Mr. Fox stressed Director Training Conferences as one way to strengthen boards of directors -- pointing up the desirability of well-planned training conferences and broad board representations. He felt that committee work and tours or reviews of other co-op programs were desirable types of training -- especially for young or inexperienced directors.

Mr. Hulbert stated in response to questions on directors' compensation, that he felt compensation should perhaps be in proportion to time spent and degree of responsibility carried (as between directors of small local co-ops and large local or regional cooperatives) and that standards of measurement of this responsibility should be developed. He suggested this question: Would it be well to have managers and executive employees serving on boards of directors and to have associations employ directors on a full-time basis? Standard policy usually frowns on both practices, he said. Co-ops need to fully utilize their most able men without regard to prior established practice -- as industry has done.

In answer to the question of tenure of directors, Mr. Hulbert pointed out both advantages and disadvantages to limiting tenure and urged electing only strong directors so to avoid the problem as much as possible. He favored junior boards as a good training program for future directors.

 CLOSING COMMENTS

Joseph G. Knapp

We have had a good workshop. It has been a significant job in many respects:

1. It has demonstrated excellent planning and good teamwork.
2. It has emphasized the effectiveness of the problem approach. The discussion has been "on the ball".
3. It has reflected staff growth in understanding and competence -- especially by our newer members.
4. It has been an open-minded workshop - with tolerance for the opinions of others. It was recognized that no one has all of the answers.
5. The technical performance of staff members was good. The meetings ran on schedule and there was evidence of careful advance preparation. I was impressed by the fact that over 90 percent of the staff actively participated.

We have had in this workshop an emphasis on the contributions of women to cooperative success. Let me bring this home. Man for man our women in the Farmer Cooperative Service are more than holding their own in the contributions they are making to the success of our program. I salute the leadership of Miss Gessner in our statistical work, and that of Mrs. Stanton in our information work, and the excellent assistance of Miss Scearce, Miss Griffin, Mrs. Emmons, Mrs. Farrow, Mrs. Watson and the many other fine women who help us keep the wheels turning. Where would we be without an effective clerical and secretarial staff?

Let me also express our appreciation to Lou Granados for this excellent bulletin board display of our recent publications, to Johnny Smiroldo and Harold Walker for their help in arrangements -- and to the Highlights Committee who will record this gathering for posterity.

I wish also to record the appreciation of the entire staff to the program committee and to our friends who have contributed so much to this year's workshop program, and especially to Secretary Benson, Assistant Secretary Peterson, Paul Armstrong, Nate Allen, Ray Miller, Governor Tootell, Ken Bachman, Homer Smith, John Davis, Ken Stern, Ray Mischler, Judge Hulbert, and Seeber Tarbell.

I would like to close with this personal comment. This workshop to me represents the public service at its best. I have never been more proud of my connection with the Farmer Cooperative Service.



